



Los Angeles Unified School District

Efficiencies Discussion Document

CONFIDENTIAL
December 2018



About this report — Limitations and Restrictions

This report (the "Report") has been prepared by Ernst & Young LLP ("EY"), from information and material supplied by Los Angeles Unified School District ("LAUSD" or the "District"), for the sole purpose of assisting LAUSD in the identification of efficiencies and potential cost savings.

The nature and scope of our services was determined solely by the Agreement between EY and the California Community Foundation (the "CCF") dated 31 August 2018 (the "Agreement"). Our procedures were limited to those described in that Agreement. Our work was performed only for the use and benefit of the CCF and should not be used or relied on by anyone else. Other persons who read this Report who are not a party to the Agreement do so at their own risk and are not entitled to rely on it for any purpose. We assume no duty, obligation or responsibility whatsoever to any other parties that may obtain access to the Report.

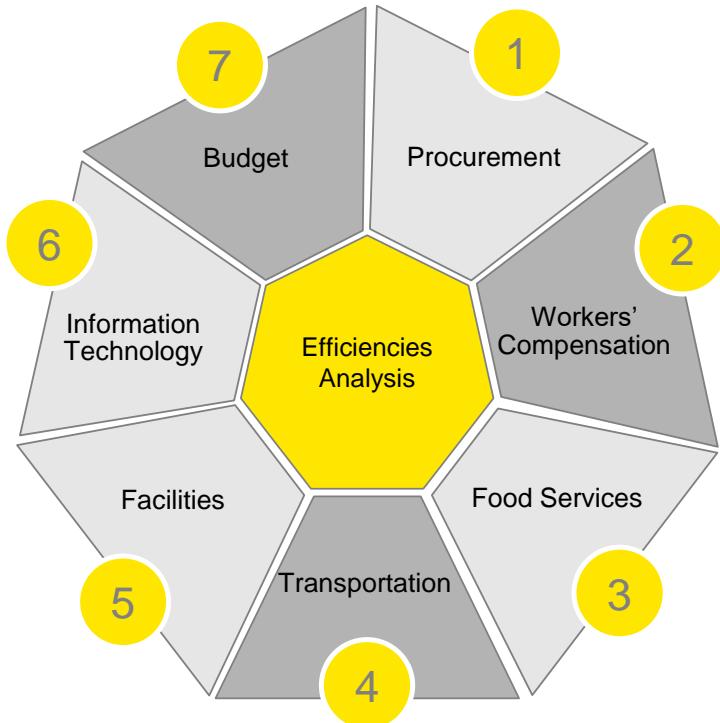
The services we performed were advisory in nature. While EY's work in connection with this Report was performed under the standards of the American Institute of Certified Public Accountants (the "AICPA"), EY did not render an assurance report or opinion under the Agreement, nor did our services constitute an audit, review, examination, forecast, projection or any other form of attestation as those terms are defined by the AICPA. None of the services we provided constituted any legal opinion or advice. This Report is not being issued in connection with any issuance of debt or other financing transaction.

In the preparation of this Report, EY relied on information provided by LAUSD or publicly available resources, and such information was presumed to be current, accurate and complete. EY has not conducted an independent assessment or verification of the completeness, accuracy or validity of the information obtained. Any assumptions, forecasts, projections, or other forms of prospective financial information (PFI) contained in this Report are solely those of LAUSD and its management ("Management") and any underlying data was produced solely by LAUSD and its Management.

We did not examine, compile or apply agreed-upon procedures to PFI in accordance with attestation standards established by the AICPA, and we express no assurance of any kind on the PFI presented. EY did not assist in the preparation, assembly, formulation, development, or processing of LAUSD's PFI or assumptions used to generate the PFI. Our analysis includes tables aggregating potential cost savings in order to illustrate effects of possible scenarios. Those tables should not be regarded as a restatement of LAUSD's PFI, or preparation of revised PFI; they are provided as a means of presenting potential ranges of cost savings to assist LAUSD in considering their implications. It is LAUSD's responsibility to consider these illustrative examples and make its own decisions based on the information available. We have made comments about specific assumptions and components of the PFI herein, where EY had sufficient evidence to provide a reasonable basis for them. We have not provided any opinion, conclusion or any type of assurance about specific assumptions or components of the PFI or on the PFI as a whole.

Management has the knowledge, experience and ability to form its own conclusions, including with respect to LAUSD's PFI. There will usually be differences between projected and actual results because events and circumstances frequently do not occur as expected and those differences may be material. EY takes no responsibility for the achievement of projected results.

Summary Scope of Work



EY was engaged by the CCF to assist LAUSD management in assessing efficiencies and potential cost savings opportunities across seven functional areas selected by LAUSD management (i.e. procurement, workers' compensation, food services, transportation, facilities, information technology, and budget).

Management selected the functional areas for analysis.

This report is intended to provide LAUSD with an illustrative range of potential cost savings in those identified functional areas, based on discussions with Management, industry leading practices, and operational benchmarks. We understand that the purpose of the analysis is to assist Management in formulating preliminary decisions regarding prioritization of areas of potential cost savings.

A detailed quantification of the achievable cost savings in each functional area was not within the scope of this report. To the extent detailed analyses are provided for certain sub-functions, they are intended for illustrative purposes only.

The findings arising from the above scope of services are summarized herein.

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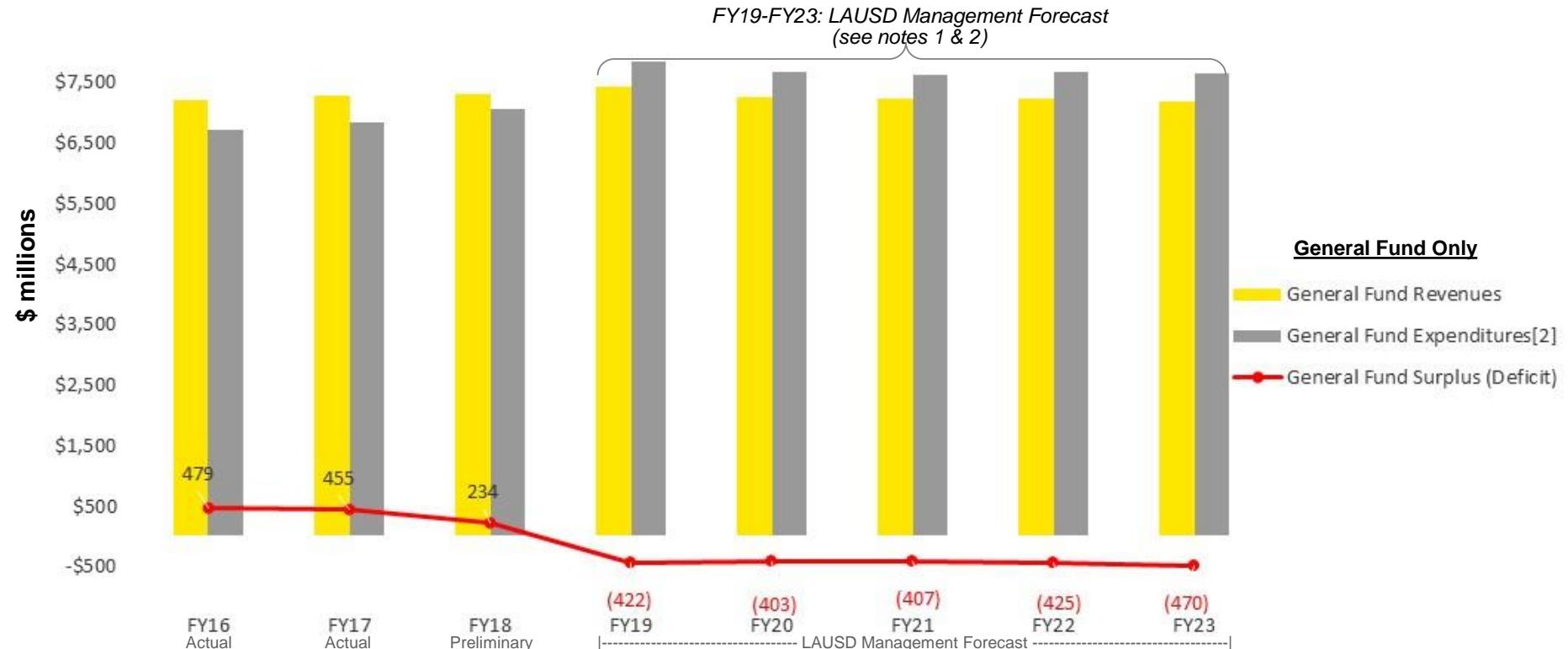
I. Executive Summary

Executive Summary

I. Executive Summary

LAUSD is projecting a sustained operating deficit in the General Fund of over \$400M per year, starting in FY19^[1]

- Although the District has generated a surplus in each of the past three years, LAUSD management is projecting a deficit in FY19 and beyond, largely driven by increases in pensions, salaries (including a reserve for potential settlement of certain labor contracts), and books and supplies.
- In order to mitigate its projected operating deficit in the general fund, LAUSD is seeking to identify efficiencies and cost savings across various functional areas.



Source: LAUSD Management financial projections

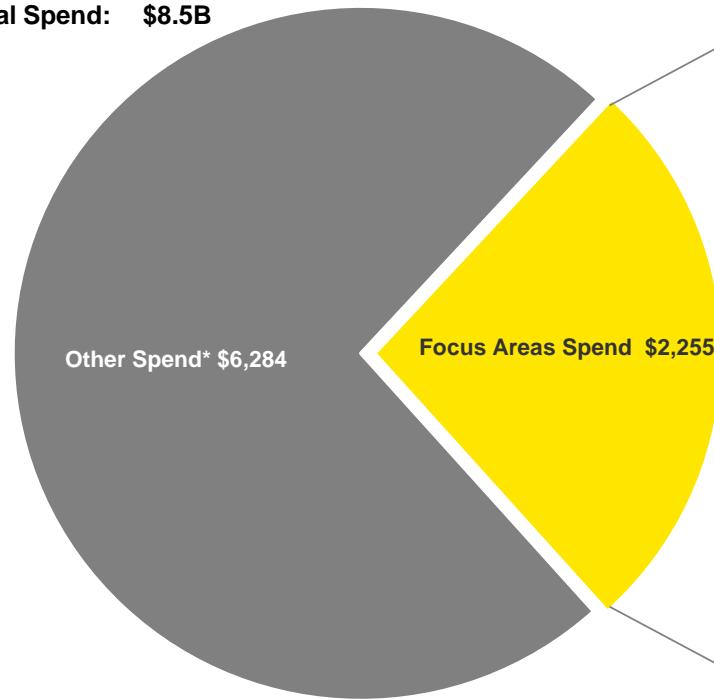
Note 1: Forecast reflects Management assumptions. An independent validation of the FY19 – FY23 forecasts has not been undertaken and the risks/opportunities associated with the individual forecasts have not been quantified.

Note 2: Total Expenditures from FY20 onwards exclude Management's projected \$45.9M annual savings identified in Management's preliminary fiscal stabilization plan.

I. Executive Summary

Of ~\$8.5B of expenditures^[1] in LAUSD's FY19 budget, Management requested an efficiencies analysis focused on seven specific functional areas that accounted for ~\$2.3B of spend

General fund: **\$7.8B**
Other funds: **\$0.8B**
Total Spend: **\$8.5B**



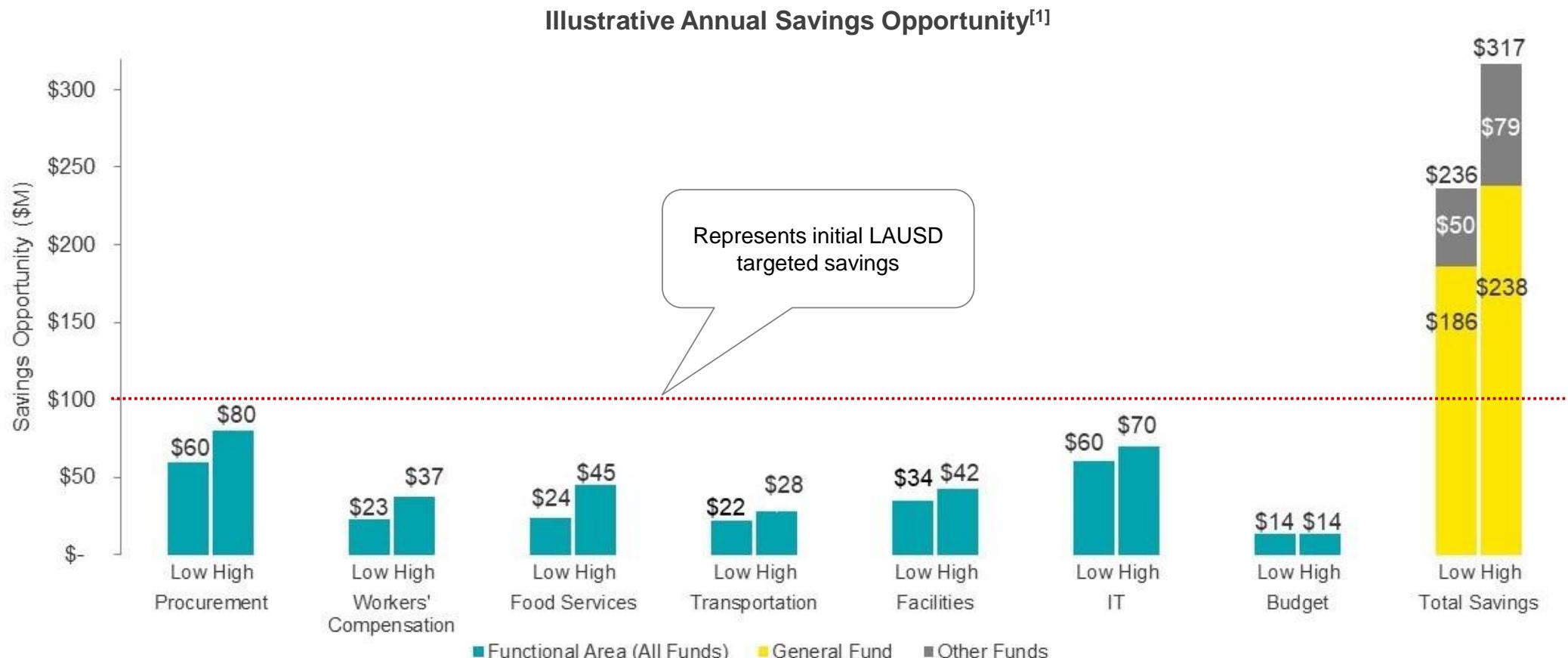
Area	Relevant \$M	Current State
Procurement ^[2]	520 (excl. areas below) [2]	<ul style="list-style-type: none"> ~\$3B spent annually on procurement of goods/services across the District, of which ~\$1.5B is paid through the General Fund and an estimated ~\$900M is relevant, including IT, Facilities, Food and Transport.
Workers' Compensation	131	<ul style="list-style-type: none"> Fully self-insured workers' compensation program, using a third party administrator (\$10.3M annually) to assist in claims management.
Food Services	424	<ul style="list-style-type: none"> Serves ~140 million meals annually across 681 campus locations/1,300 units. Receives \$27M of support from the General Fund (FY19 Budget).
Transportation	182	<ul style="list-style-type: none"> Transports ~22,000 students daily over 1,500 routes. Employs 1,558 personnel (incl. 933 bus drivers) and maintains the District's yellow fleet of 1,298 buses and white fleet of 1,474 vehicles.
Facilities M&O	618	<ul style="list-style-type: none"> M&O comprises over 4,000 in-house craftspeople and staff, responsible for maintaining the District's ~92.5 million sq. ft. of real estate.
IT	342	<ul style="list-style-type: none"> Consists of 681 staff, supporting 400,000+ computing devices, 95,000+ wireless access points, 46,000+ network devices and an 300+ application portfolio. IT Department ("ITD") has an FY19 budget of ~\$342M, split between the General Fund (\$150M) and bond funds (\$192M).
Budget	38	<ul style="list-style-type: none"> 308 employees at an FY19 budgeted personnel cost of ~\$38M. Functions comprise accounting, accounts payable, budget, payroll and treasury.
Total	\$2,255	

Note 1: LAUSD Management estimated total spend of ~\$8.5B consisting of General Fund forecast of \$7.8B + Cafeteria Fund FY19 Budget of \$396M + bond-funded IT of \$192M + other non-general fund procurement ~\$100M.

Note 2: Estimated total relevant procurement spend at ~\$900 million, including ~\$385M of spend budgeted across Food Services, Transportation, Facilities and IT. The ~\$385M spend is already represented in the individual budgets of each functional area, therefore it has been excluded from the "Relevant" procurement total of \$520M shown above.

I. Executive Summary

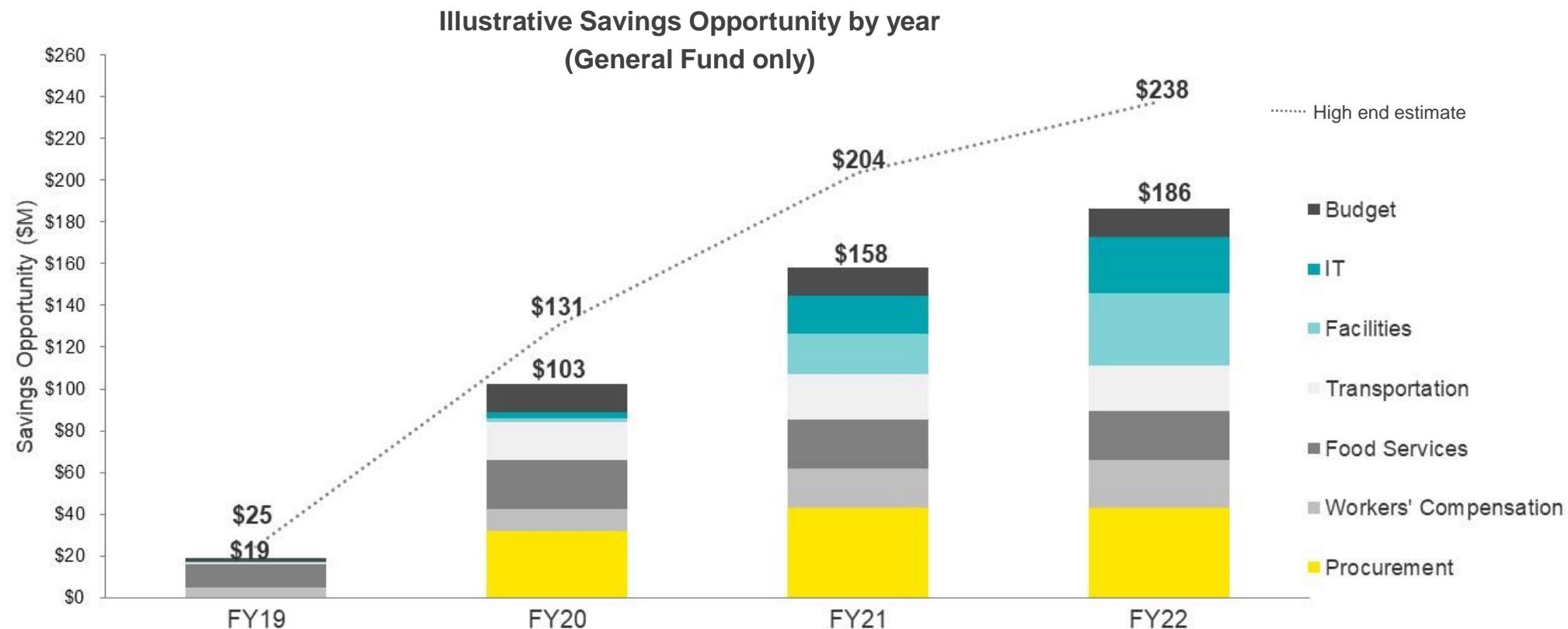
Across the seven functional areas, the analysis identified over 50 recommendations with an illustrative potential savings opportunity by FY22 of ~\$236M on the low end, equivalent to ~10% of the relevant spend



* Note 1: Illustrative annual savings opportunity is a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management. The illustrative savings ranges assume full implementation of cost reduction strategies. Due to implementation timing and associated risk, full savings potential may not be achieved until subsequent years, if at all. See page 9 for discussion of potential savings timing. Further analysis would be required to refine the potentially achievable range of savings, analyze costs of implementation, and further assess timing requirements.

I. Executive Summary

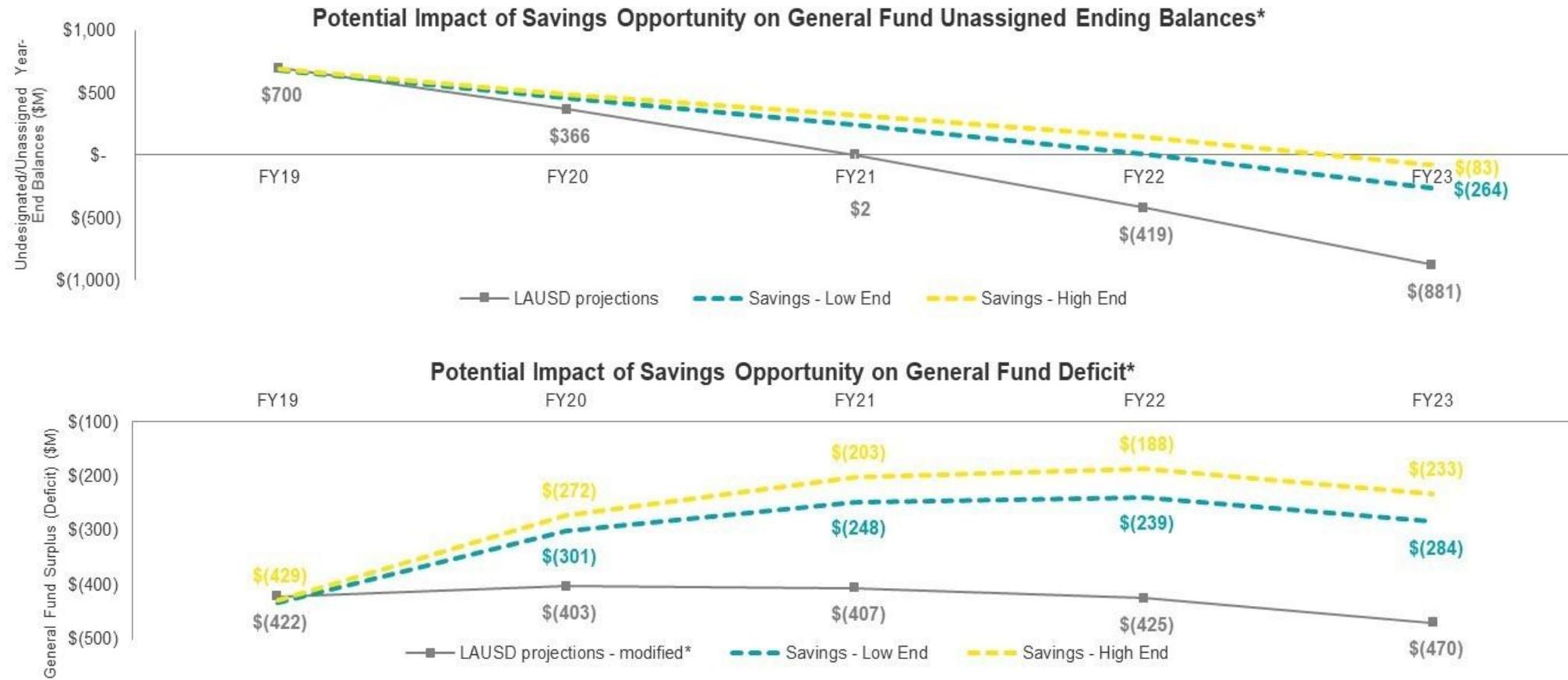
With immediate action, some General Fund savings could be achieved yet in FY19, but the majority of the savings potential is estimated to be realized in FY20 and beyond



- Based on typical timing of this type of implementation, it would be necessary to commence the various initiatives as soon as possible during FY19 in order to achieve the savings within the time frame outlined above.

I. Executive Summary

The savings alone do not eliminate the operating deficit projected by the District; however, implementing the identified savings could delay the depletion of the District's unassigned fund balance



* Note: The forecast deficit was estimated assuming that forecast salaries and benefits expenditures incorporate the "Reserve for Potential Salary Increase" balance from LAUSD's Multi Year Projection. This assumption does not affect the General Fund unassigned ending balances as the salary reserve is already netted out of the unassigned balances in Management's projections.

I. Executive Summary

A number of key themes are common across the seven functional areas and would need to be addressed to unlock the estimated savings potential in each area

Observations	Procurement	Workers' Compensation	Food Services	Transportation	Facilities	Information Technology	Budget
Improve utilization of data and resources	✓	-	-	✓	✓	✓	-
Review procedures and policies	-	✓	✓	✓	✓	-	✓
Rationalize and maximize assets	-	-	-	✓	✓	✓	-
Consolidate vendors and/or renegotiate prices	✓	✓	✓	✓	✓	✓	-
Automate processes	✓	-	-	✓	-	✓	✓
Standardization	-	-	-	-	-	✓	✓
Consider benefits of outsourcing	-	-	-	-	✓	✓	✓

I. Executive Summary

Estimated low end savings potential of ~\$236M^[1] across all seven areas could be achieved by FY22 if fully implemented successfully (1 of 2)

 Less complex  Moderate  More complex

Category	Recommended areas of focus	Ref	Implementation		Estimated savings by year (\$M) ^[1]				Total (\$M)	
			Difficulty ^[2]	Timing ^[2]	FY19	FY20	FY21	FY22	Low	High
Procurement <i>Savings estimate: \$59.5M - \$80M</i>	Technology strategic sourcing program	1		6-9 months	9	9	9	9	9	12.5
	Food Services, Professional Services, Transportation, General Supplies, Facilities	2,3,4,6,7		6-9 months	36	36	36	36	36	48
	Textbooks strategic sourcing program	5		9-10 months	3.5	3.5	3.5	3.5	3.5	4.5
	Special Education strategic sourcing program	8		12 months +	11	11	11	11	11	15
Workers' Compensation <i>Savings estimate: \$23M - \$38M</i>	Enhance internal claim management and oversight capabilities	1		12-36 months	2	4	7	7	7	10
	Renegotiate the fee agreement with existing third party claims administrator	2		3 months	1	1	1	1	1	3
	Reduce telephonic case management and defense attorney utilization	3		3 months	1	1	1	1	1	1
	Formalize WC cost allocation and Return to Work ("RTW") program across the District	4		12-36 months	1	4	9	14	14	24
Food Services <i>Savings estimate: \$24M - \$45M</i>	Transfer General Fund food expenses to Cafeteria Fund: FTE expenses	1a	 	6 months	5	11	11	11	11	11
	Transfer General Fund food expenses to Cafeteria Fund: Job Costs, M&O, etc.	1b		6 months	6	13	13	13	13	16
	Remove requirement to staff Food Services employees for a minimum of 4 hours/day	3	 	12 months +					-	18
Transportation <i>Savings estimate: \$22M - \$29M</i>	Consolidate ~175 contractor bus routes (due for renewal in June 2019) and certain District bus routes based on actual ridership	1-2		6-12 months	10.5	14	14	14	14	16
	Rationalize yellow bus fleet to optimize fleet mix and reduce maintenance and fuel costs	3		3-9 months	4.6	4.6	4.6	4.6	4.6	6
	Implement a vendor performance management framework for the bus contractors to improve on-time performance and capture all liquidated damages	4		3-9 months	0.5	0.5	0.5	0.5	0.5	1
	Install radio-frequency identification ("RFID") readers on all buses for student ridership counts and provide RFID cards to students	5		12 months	1	1	1	1	1	2
	Review and revise policies and procedures regarding LAUSD employee eligibility for a District-owned vehicle and transition to leasing structure for light-duty white fleet	6		12 months +	0.5	1	1	1	1	3
	Eliminate job costing for daily bus routes	7		3-6 months	0.3	0.3	0.3	0.3	0.3	0.6

Note 1: Figures in the annual distribution represent the low end of the illustrative savings opportunity and include both the General Fund and other funds. Illustrative amounts reflect a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Note 2: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors.

I. Executive Summary

Estimated low end savings potential of ~\$236M^[1] across all seven areas could be achieved by FY22 if fully implemented successfully (2 of 2)

Legend:  Less complex  Moderate  More complex

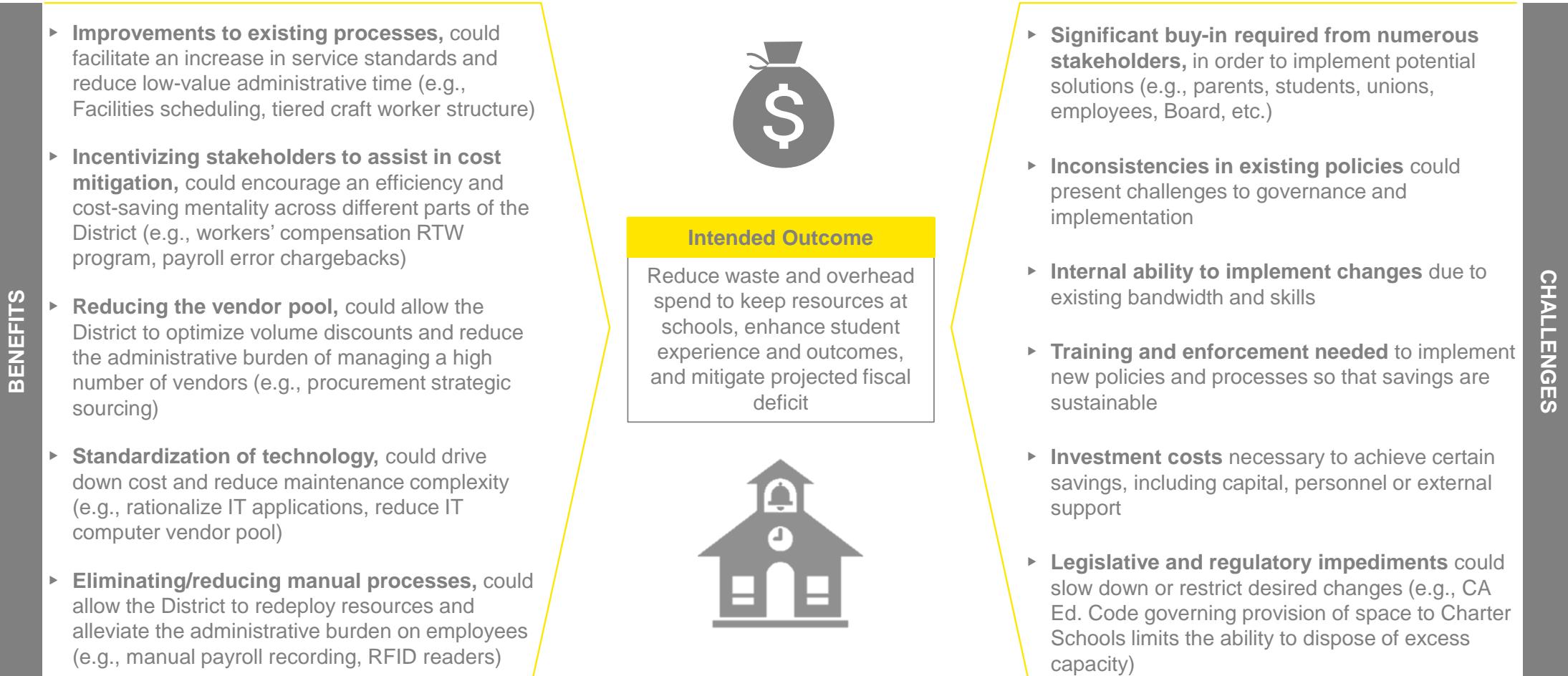
Category	Recommended areas of focus	Ref	Implementation		Estimated savings by year (\$M) ^[1]				Total (\$M)	
			Difficulty ^[2]	Timing ^[2]	FY19	FY20	FY21	FY22	Low	High
Facilities M&O <i>Savings estimate: \$34M - \$42M</i>	Utilize outside service providers to complete routine activities; transition to an outsource model for all services	1a-1b		12 months +			4	10	10	13
	Implement a tiered service approach for craft work; hire 12 schedulers to reduce administrative burden on supervisors	2a-2b		9-12 months +	1	2	2	2	2	3
	Develop an appraisal process for consolidation or alternative use across the facilities portfolio	3a		12 months +			7	16	16	18
	Develop a plan to consolidate staff use of office space at 333 Beaudry in alignment with future staff planning	3b		9-12 months +			6	6	6	8
IT <i>Savings estimate: \$60M - \$70M</i>	Realign the organization to current and future technology needs and dramatically increase the use of outsourcing for commodity functions	1a-1e		4-18 months			7.5	15	15	18
	Establish enterprise standards, policies and procedures to ensure optimal use of enterprise assets	2a-2e		4-18 months	3	15	15	15	15	18
	Develop Enterprise Architecture and Enterprise Project Management office to ensure consistent project prioritization and alignment with District capabilities.	3a-3d		6-14 months	4	8	8	8	8	10
	Move primary data center to low cost locations along with Data Recovery ("DR") to cloud and rationalized application portfolio.	4a-4e		6-24 months			11	22	22	24
Budget <i>Savings estimate: \$14M</i>	Outsource payroll check printing	1		3 months	0.2	0.2	0.2	0.2	0.2	0.2
	Implement OpenText to centralize invoice processing and improve 3-way match	2		6-12 months		0.8	0.8	0.8	0.8	0.8
	Rollout / prioritize IT projects to automate school business travel and certain manual payroll processes	3, 4b		3-18 months	0.7	1.7	1.7	1.7	1.7	1.7
	Initiate a policy whereby a portion of overpayments, penalties and interest due to late filing of payroll paperwork will be charged back to the schools	4a		6 months		1	1	1	1	1
	Consider the appropriate number of "baseline" assistants across pre-K and K-12 based on actual needs (as determined by LAUSD), IEPs, Ed Code, and other requirements.	5		6 months	10.6	10.6	10.6	10.6	10.6	10.6
Total estimated savings (including figures from previous page)					\$17.9	\$123.2	\$197.7	\$236.2	\$236.2	\$317.9

Note 1: Figures in the annual distribution represent the low end of the illustrative savings opportunity and include both the General Fund and other funds. Illustrative amounts reflect a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Note 2: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors.

I. Executive Summary

Potential benefits and challenges of the implementation of potential savings opportunities



Procurement

II. Procurement

Methodology and disclaimer

EY was engaged by the CCF to assist LAUSD Management with the following:

- ▶ Understand the current state
- ▶ Analyze maturity of procurement practices
- ▶ Estimate opportunities for potential savings

Management is the responsible party for all prospective financial information. Illustrative potential savings estimates are based upon:

- ▶ Historical LAUSD financial and operational information provided by Management
- ▶ Discussions with select members of the relevant LAUSD functional teams, including the office of the superintendent and the reimagining team
- ▶ Illustrative ranges of cost savings potential from industry leading practices
- ▶ Industry benchmarks

Disclaimer regarding illustrative savings estimates:

- ▶ Illustrative savings are based on high-level discussions with Management and do not reflect a detailed analysis
- ▶ Illustrative savings are based on industry benchmarks and may not be reflective of operational, financial, or other factors specific to LAUSD
- ▶ Illustrative savings do not include one-time costs to implement

II. Procurement

Executive Summary (1 of 2)

Current State

- ▶ LAUSD spends ~\$3B annually on the procurement of goods and services across the District, of which ~\$1.5B is paid through the General Fund.
- ▶ Management's primary focus was on procurement savings in the General Fund but also included some spend in related funds (e.g., food services, Cafeteria Fund).
- ▶ Approximately \$900M (which includes ~\$385M of food services, transportation, facilities, and IT spend, see page 7) of the total spend (\$3B) was identified by Management for consideration.

Procurement Practices and Organization

- ▶ LAUSD has a central procurement group that handles many administrative and compliance-related activities and could spend more time driving cost efficiencies.
- ▶ Due to budget cuts over the past 10 years, the procurement group has trended toward more decentralization of procurement, eroding the buying leverage of the District and increasing costs across certain categories (e.g. professional services, special education).
- ▶ An emphasis on choice and lack of adherence to procurement best practices due to decentralization has limited the procurement group's ability to control cost.
- ▶ Current practice awards items by line level, which does not follow procurement best practices (e.g. bundling, consolidation) and adds substantial complexity to qualify, negotiate with, and manage a very large pool of vendors.
- ▶ The District policies and practices include highly detailed specifications of certain goods and services (e.g., facilities maintenance and operations), which have restricted the use of a broad set of qualified suppliers, further reducing competition.
- ▶ The procurement group may be understaffed given the current volume of vendors, lacks the appropriate skills/training and does not have the proper mandate to drive best-practice procurement efficiencies (e.g., strategic sourcing, vendor consolidation).

Warehouse Operations

- ▶ The group of principals interviewed expressed frustration with the ease, quality, value, and timeliness of services provided by warehouse operations.
- ▶ Warehouse operations purchases in bulk and marks up goods and services to schools/departments by ~47% to cover a portion of its annual operating costs (~\$32M).
- ▶ A sample of the top 50 items purchased in general supplies found that in many cases, single-unit retail pricing from an online retailer could be less expensive than the warehouse pricing, suggesting that the current pricing model and/or benefit of the warehouse may need to be further evaluated.

Recommendations

- ▶ Conduct a one-time, comprehensive strategic sourcing program/initiative focusing on eight major spend categories to drive improved pricing (i.e., re-compete spend categories, consolidate vendors and implement more advanced procurement strategies).
- ▶ Implement more user-friendly procurement tools (e.g., e-Catalogs) to streamline the procurement process so that adequate controls are in place to eliminate off-contract spend.
- ▶ Implement changes to procurement policies and consolidate "shadow" procurement resources to enable sustainability of any realized cost savings.
- ▶ Conduct a deep-dive assessment of the current mark up pricing model and value (cost, service, quality) to the District of the warehouse operations function.

Sources: LAUSD Management FY18 AP data, client stakeholder interviews

II. Procurement

Executive Summary (2 of 2)

- Less complex
- Moderate
- More complex

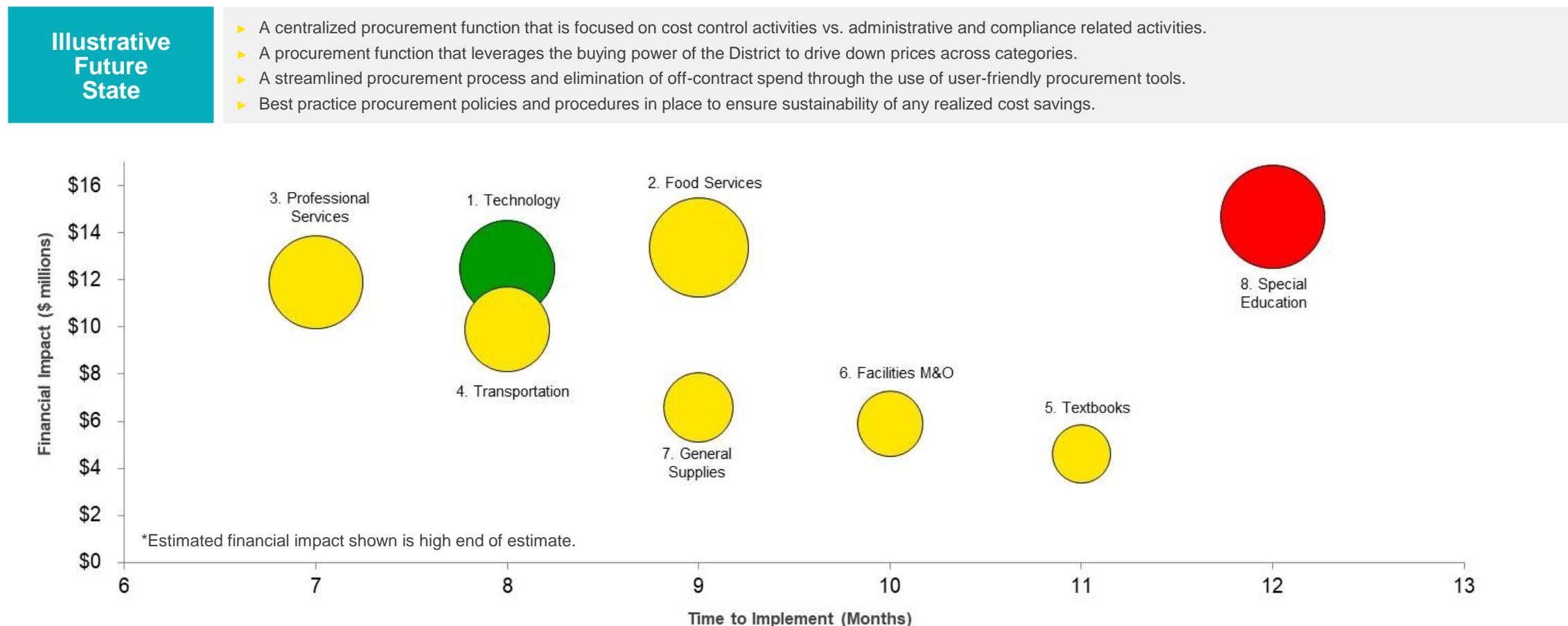
Finding	Recommendation	Difficulty ^[1]	Timing ^[1]	Illustrative Impact ^[1]
1. Technology: Multiple manufacturers used through IT distributor. No use of reverse auctions for end user hardware (laptops, desktops). Limited recent competition and consolidation activities.	Conduct a comprehensive sourcing event for IT hardware directly with OEMs. Leverage dynamic bidding (reverse auctions). Consolidate to two major manufacturers of equipment for laptops/desktops.	●	6-9 months	~\$9M-\$12.5M
2. Food Services: Food and dairy categories have not been competed or moved to a new supplier in some years.	Conduct a comprehensive sourcing event for both food and dairy to drive improved pricing with incumbents or new suppliers.	●	6-9 months	~\$10M-\$13M
3. Professional Services: Bench contracts are used to pre-qualify vendors with pre-negotiated rates but represent the minimum discount available as no work is guaranteed.	Professional service bench vendors should be further competed and consolidated to a minimum set of vendors that meet the requirements of the District.	●	6-9 months	~\$9M-\$12M
4. Transportation: A comprehensive evaluation of the supplier base has not been performed in the past year, and ~175 pupil transportation routes are set to expire in 2019.	Conduct a comprehensive sourcing event for all pupil transportation vendors with bids based on routes rather than bus capacity.	●	6-9 months	~\$7M-\$10M
5. Textbooks: Grades 9-12 textbooks are selected by the school vs. centrally mandated, deleveraging spend and adding complexity to the organization.	Consolidate core textbooks and conduct a comprehensive sourcing event for consolidated purchasing.	●	9-10 months	~\$3.5M-\$4.5M
6. Facilities M&O: LAUSD maintains over 900 unique vendors for maintenance and operations, most of which are small providers. This deleverages spend and adds complexity into the organization.	Conduct a comprehensive sourcing event for Integrated Facilities Management ("IFM"). Consolidate vendors to primary IFM vendor or major "trade" vendors to reduce complexity and administration and improve purchasing power.	●	6-9 months	~\$5M-\$6M
7. General Supplies: Contracts are awarded by item level rather than as a full comprehensive portfolio. While some items can be procured more cheaply, a number of items can be more costly.	Conduct a comprehensive sourcing event for a full service strategic vendor for all general supply items and set profit margins across the portfolio rather than individually negotiating price by item.	●	6-9 months	~\$5M-\$7M
8. Special Education: Special education procures its own services currently, using a large set of vendors. Traditional competition and best practice strategic sourcing are not practiced.	Conduct a comprehensive sourcing event for special education services across the District. Consolidate to fewer vendors and transition ongoing procurement into centralized procurement to ensure a more effective procurement practice.	●	12+ months	~\$11M-\$15M
			Total	~\$59.5M-\$80M

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

II. Procurement

Recommendation Impact Projection^[1]

- Less complex
- Moderate
- More complex

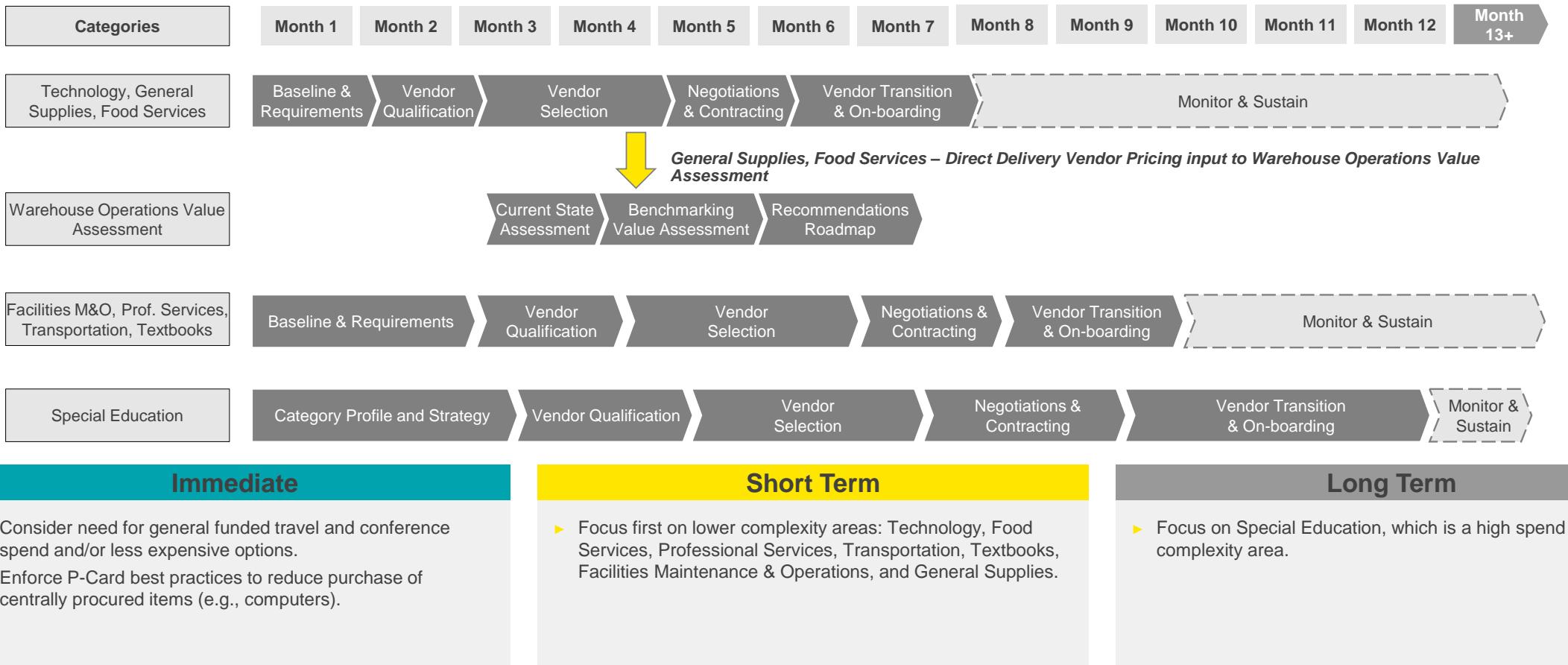


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II. Procurement

Illustrative Implementation Roadmap^[1]

Execution follows a five-step approach that could range from 7 to 12 months depending on category complexity.



Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors.

Workers' Compensation

III. Workers' Compensation

Methodology and disclaimer

EY was engaged by the CCF to assist LAUSD Management with the following:

- ▶ Understand the current state
- ▶ Analyze workers' compensation practices and expenditures
- ▶ Estimate opportunities for potential savings

Management is the responsible party for all prospective financial information. Illustrative potential savings estimates are based upon:

- ▶ Historical LAUSD financial and operational information provided by Management
- ▶ Discussions with select members of the relevant LAUSD functional teams, including the office of the superintendent and the reimagining team
- ▶ Illustrative ranges of cost savings potential from industry leading practices
- ▶ Industry benchmarks

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- ▶ Illustrative savings are based on industry benchmarks and may not be reflective of operational, financial, or other factors specific to LAUSD
- ▶ Illustrative savings do not include one-time costs to implement

III. Workers' Compensation

Executive Summary

- Less complex
- Moderate
- More complex

Current State	<ul style="list-style-type: none"> ► LAUSD has a fully self-insured workers' compensation ("WC") program that totaled \$111.5M in direct costs during FY17. ► The workers' compensation program is centrally managed within the District by the integrated disability management unit ("IDM"). ► The integrated disability management unit utilizes a third party claims administrator ("TPA") to manage workers' compensation claims. ► LAUSD pays ~\$10.3M annually to TPA for claims administrator services. 			
Finding	Recommendation	Difficulty ^[1]	Timing ^[1]	Illustrative Impact ^[1]
1. The file review identified approximately 17% in claims financial leakage, which is higher than industry leading practice. <i>"Financial leakage" here can be defined as the additional amount paid, above what might have been paid, if leading practices had been applied</i>	Enhance internal claim management and oversight capabilities <ul style="list-style-type: none"> • Increase the staffing levels, technical knowledge and experience within the IDM unit. • Enhance claims practices for the TPA and LAUSD internal resources to follow and establish formal governance and quality assurance procedures. 	●	1-3 years	\$7-10M
2. The District's current staffing levels and claims management practices may be limiting more effective management of the program given the size and complexity.	Implement cost reductions strategies associated with telephonic case management and defense attorney utilization.	●	3 months	\$1M
3. Fees paid to TPA are higher than typically seen in industry leading practice and contractual terms with TPA do not have the same level of quality requirements typically seen in industry leading practice.	Consider renegotiating the fee agreement with TPA to pursue a reduction in fees along with additional performance assurances (e.g. certain fees will be at risk depending on the outcome based performance metrics).	●	3 months	\$1-3M
4. Responsibility for WC management rests solely within the IDM unit, therefore other departments are not directly incentivized to assist in WC cost management.	Implement a formal WC cost allocation program throughout the District in conjunction with an updated Return to Work ("RTW") program.	●	1-3 years	\$14-24M
			Total	\$23M-\$38M

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

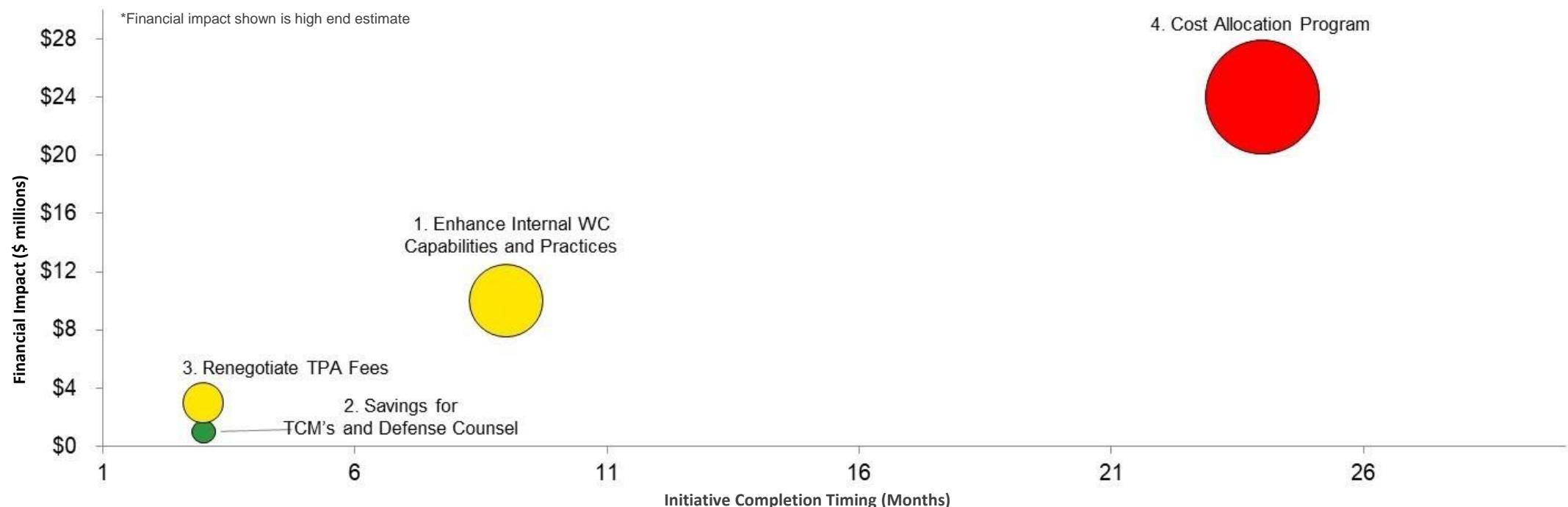
III. Workers' Compensation

Recommendation Impact Projection^[1]

- Less complex
- Moderate
- More complex

Illustrative Future State

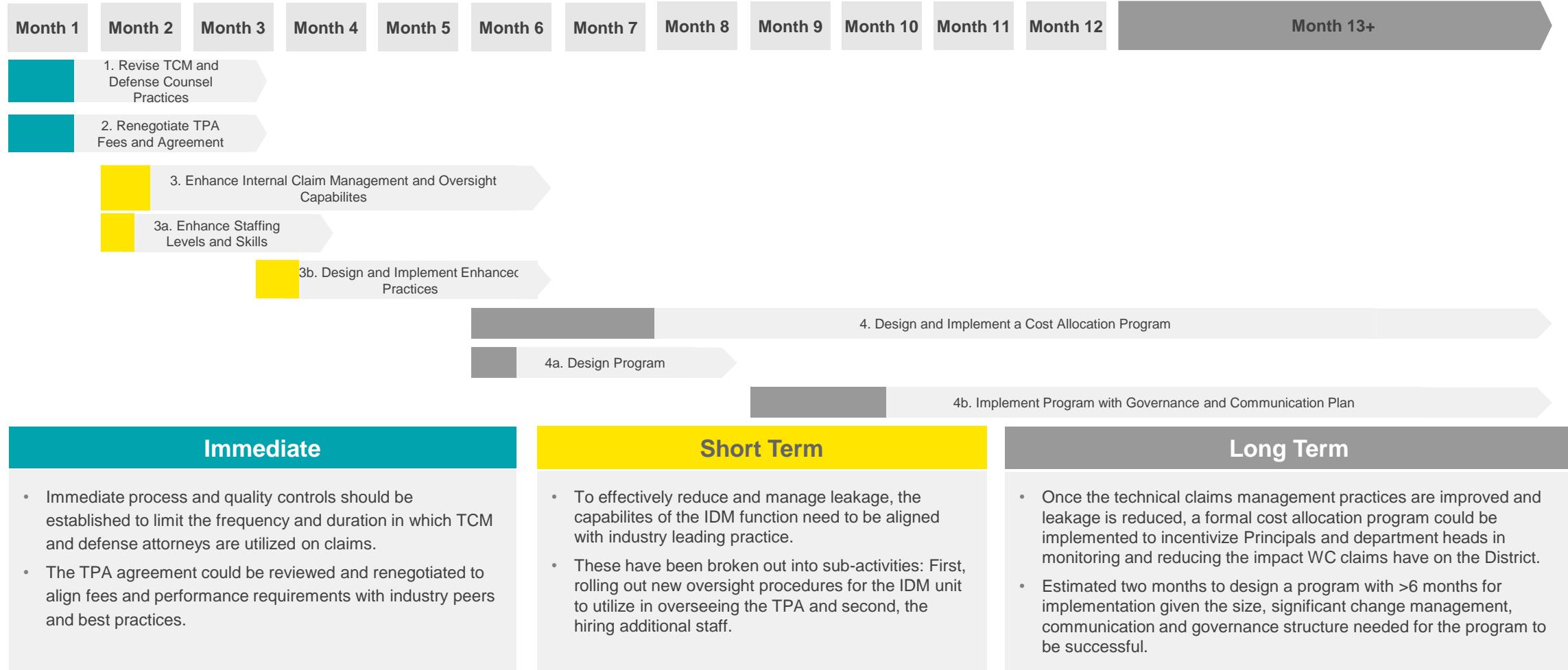
- Implementation of new procedures for telephonic case managers ("TCM") and defense counsel should continue to yield positive savings in the short and long term.
- Renegotiated TPA fee structure and investment in the IDM unit regarding staffing and establishment of improved processes and procedures.
- The final wave would be implementation of a cost allocation program that would require a properly staffed and structured IDM unit in order to maximize its efficiency through accountability and cost reduction.



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III. Workers' Compensation

Illustrative Implementation Roadmap^[1]



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Food Services

Methodology and disclaimer

EY was engaged by the CCF to assist LAUSD Management with the following:

- ▶ Understand the current state
- ▶ Analyze food service practices and expenditures
- ▶ Estimate opportunities for potential savings

Management is the responsible party for all prospective financial information. Illustrative potential savings estimates are based upon:

- ▶ Historical LAUSD financial and operational information provided by Management
- ▶ Discussions with select members of the relevant LAUSD functional teams, including the office of the superintendent and the reimagining team
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- ▶ Industry benchmarks

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- ▶ Illustrative savings do not include one-time costs to implement

IV. Food Services

Executive Summary

- Less complex
- Moderate
- More complex

Current State	<ul style="list-style-type: none"> ► LAUSD's Food Services program is comprised of expenses in the Cafeteria Fund (\$396M FY19) plus additional support from the General Fund (\$27M FY19). It serves ~140 million meals annually across 681 campus locations / 1,300 individual units. ► For the past two years, the Cafeteria Fund has generated a surplus (historically loss making prior to FY17); however, the overall Food Services program continues to lose money due to the incurrence of food services expenses in the General Fund (mainly related to the warehouse). 				
	Finding	Recommendation	Difficulty ^[1]	Timing ^[1]	
				Illustrative Impact ^[1]	
1.	The Cafeteria Fund has generated a ~\$13M surplus over the past two years; however, this surplus cannot be used to offset the ~\$25M in expenses incurred by the General Fund (mainly related to warehouse functions) unless these expenses are eligible for transfer to the Cafeteria Fund.	<p>Request approval from the California Department of Education ("CDE") to transfer General Fund food services expenses to the Cafeteria Fund (in process):</p> <ul style="list-style-type: none"> a) Relevant full time equivalent ("FTE") personnel costs can likely be transferred and certified. b) Job cost related personnel costs and maintenance and operations costs may be more challenging to transfer or certify if not expressly dedicated to food service related activities. 	● ●	1a) <6 months 1b) <6 months	1a) ~\$11M 1b) ~\$13-16M
2.	Food and labor account for >90% of cost in the District's food services program. LAUSD is broadly in-line with other major school districts in food costs but disproportionately higher in benefit costs.	Strategic sourcing of food vendors presents incremental opportunities to lower food costs. Refer to section II. Procurement for further detail.	●	6 - 9 months	See section II. Procurement
3.	Board policy requires that employees are scheduled for a minimum of 4 hours per shift, resulting in employees receiving full benefits under the collective bargaining agreement ("CBA"). The benefit load associated with a 4-hour worker is ~184% of base salary, significantly increasing costs and limiting labor flexibility.	Consider removing the requirement to staff food service workers for a minimum of 4 hours per day.	●	FY 19-20	~\$0-\$18M
				Total	\$24M-\$45M

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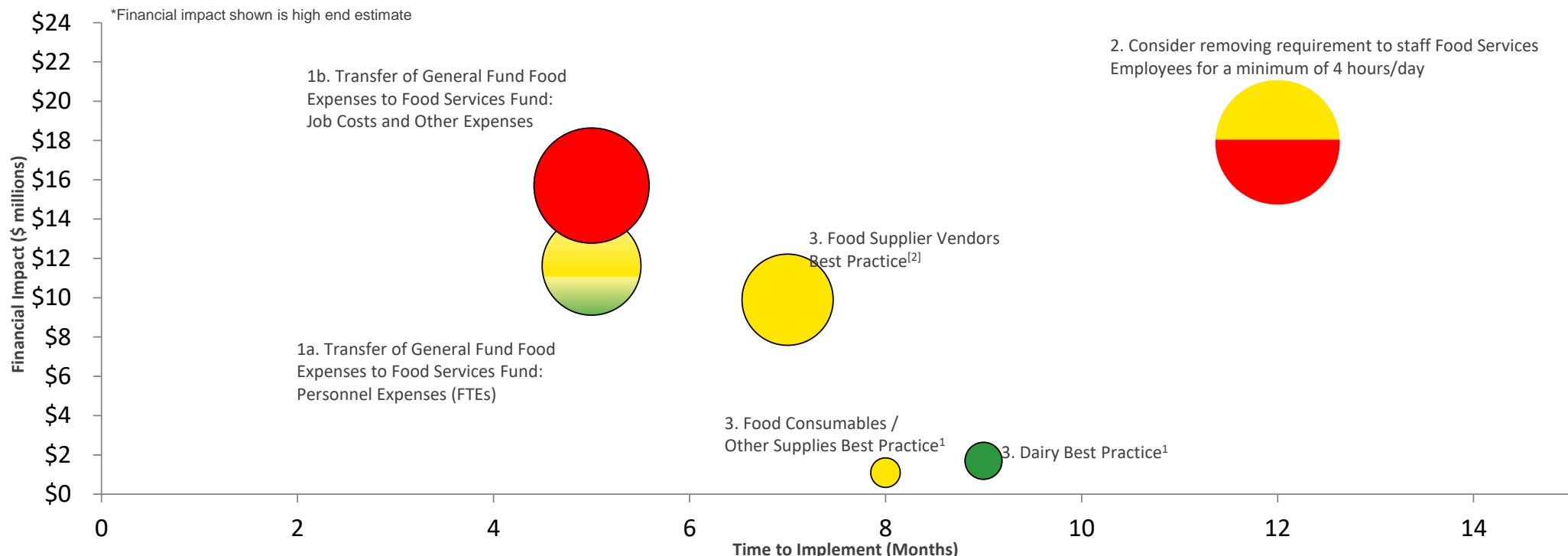
IV. Food Services

Recommendation Impact Projection^[1]

- Less complex
- Moderate
- More complex

Illustrative Future State

- A food services program that is self-funded without any notable general fund support.
- Improved operational flexibility through the employment of part time workers on <4 hour per day contracts, where appropriate, resulting in both additional cost control and the ability to provide targeted support to cafeterias (e.g. more points of sale) to drive higher lunch participation.
- Strategic sourcing of food vendors to further reduce cafeteria fund costs and help fully absorb existing general fund support.

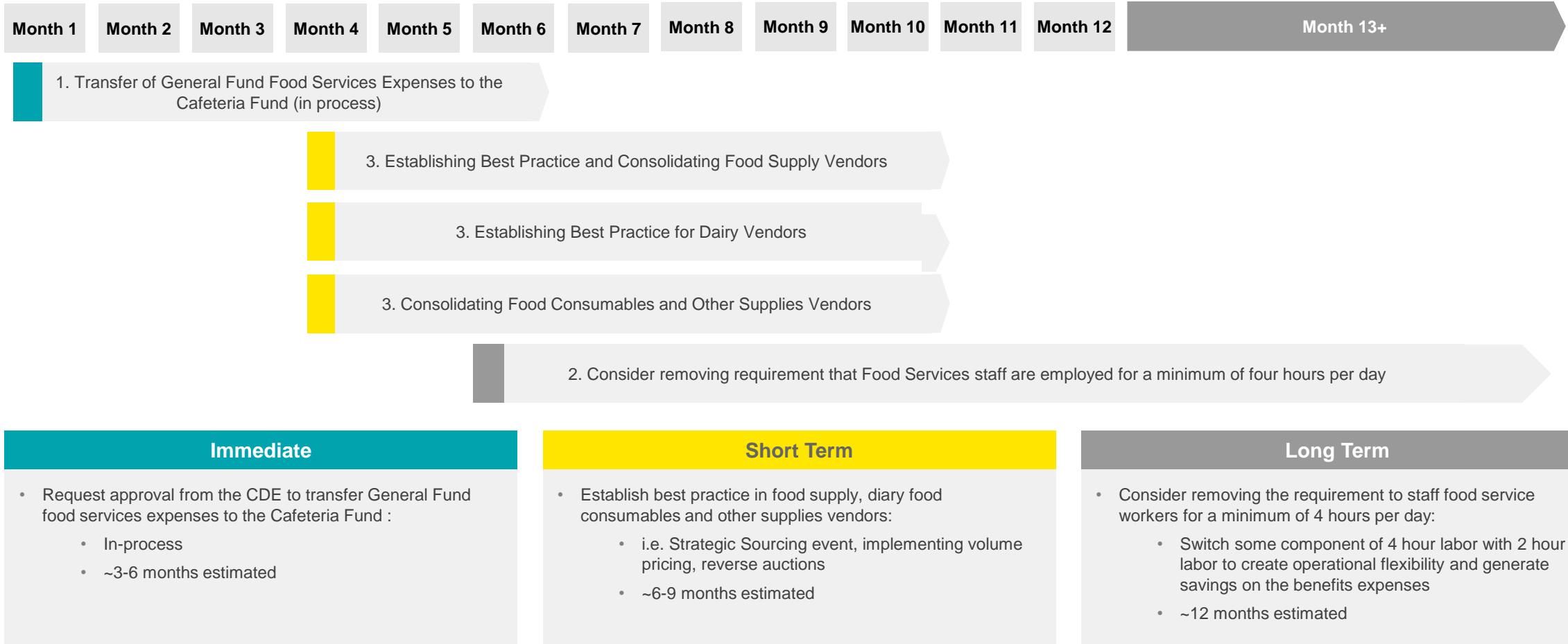


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Note 2: Related to Procurement Workstream; see 'Procurement' section II. for details.

IV. Food Services

Illustrative Implementation Roadmap^[1]



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Transportation

V. Transportation

Methodology and disclaimer

EY was engaged by the CCF to assist LAUSD Management with the following:

- ▶ Understand the current state
- ▶ Analyze transportation practices and expenditures
- ▶ Quantify opportunities for potential savings

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V. Transportation

Executive Summary (1 of 2)

- Less complex
- Moderate
- More complex

Current State	<ul style="list-style-type: none"> ► LAUSD's Transportation Services Division ("TSD") transports approximately 21,000 students daily across over 1,500 routes. Students are transported for four primary reasons: Special Education, Integration, Distance and Hazard, and No Child Left Behind / Core Waiver. ► TSD's service model for transporting students to and from school is a combination of District-provided and contracted yellow bus service with two major private vendors. ► TSD employs 1,558 personnel and maintains a yellow fleet of 1,307 buses and the District's white fleet of 1,394 vehicles. ► TSD spent ~\$182M on student transportation and fleet maintenance in FY18 (excluding capital one-time funds). State funding has been flat since FY14 (\$39M).
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Finding	Recommendation	Difficulty ^[1]	Timing ^[1]	Illustrative Impact ^[1]
1. Contracted bus routes are costly given declining ridership numbers.	Consolidate ~175 contractor routes up for renewal in June 2019.	●	6-9 months	\$12M
2. Bus routes are not being optimized due to the following factors: <ol style="list-style-type: none"> a) Bus routes are planned based on the number of students eligible for transportation rather than actual ridership. b) Almost 3,000 magnet program students who are not eligible for pupil transportation were assigned to routes in SY19. c) TSD's outdated GPS and routing technologies have limited to no reporting or analytical capabilities resulting in a lack of data to make informed decisions. 	Consolidate District routes by determining ridership, analyzing routes for efficiency in real-time, and leveraging resources effectively: <ol style="list-style-type: none"> a) Change the magnet school pupil transportation policy from an "opt-out" model to "opt-in" transportation and consider home to program distance regarding magnet transportation eligibility. b) Issue RFP for radio-frequency identification ("RFID") readers on buses and RFID cards for students to track daily ridership in real time; build requirement for RFID into contractor agreements. c) Align on magnet program transportation policy decisions including exception approval process with District administrators. Issue RFP for routing and scheduling system. Issue RFP for GPS system (which syncs with RFID readers). 	●	6-12 months	\$2M-\$4M

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V. Transportation

Executive Summary (2 of 2)

- Less complex
- Moderate
- More complex

Finding	Recommendation	Difficulty ^[1]	Timing ^[1]	Illustrative Impact ^[1]
3. There is an oversupply of yellow bus inventory based on the number of routes.	Rationalize yellow bus fleet to optimize fleet mix and reduce maintenance and fuel costs: a) Dispose of ~250 excess buses b) Dispose of 170 buses as new buses arrive in 2019	●	a) 3-6 months b) 6-9 months	a) \$4M-\$5M b) \$600K-\$1M
4. There is no formalized vendor performance management process in place to improve bus contractors' on-time performance and ensure that all liquidated damages are being captured.	Implement a vendor performance management framework for the two pupil transportation vendors to improve on-time performance and capture all liquidated damages.	●	3-9 months	\$500K-\$1M
5. The current process for tracking Special Education ("SpEd") student transportation counts is highly manual leading to a loss of some Medi-Cal reimbursement.	Install RFID Readers on all buses to automate tracking of actual student ridership counts and provide RFID Cards to SpEd transportation students.	●	12 months	\$1M-\$2M
6. Due to budget constraints, the District has not consistently replaced its light duty white fleet, leading to high maintenance costs for its white fleet.	To reduce high maintenance costs for white fleet: a) Review and revise Policies and Procedures regarding District-owned vehicles including light duty vehicle eligibility. b) Move to an open-ended lease structure for light duty white fleet.	●	12 months+	\$1M-\$3M
7. TSD is tracking daily bus routes through an ineffective, labor intensive job cost system that is unnecessarily time consuming and outdated.	Eliminate job costing for TSD daily bus routes.	●	3-6 months	\$300K-\$600K
			Total	\$22M-\$29M

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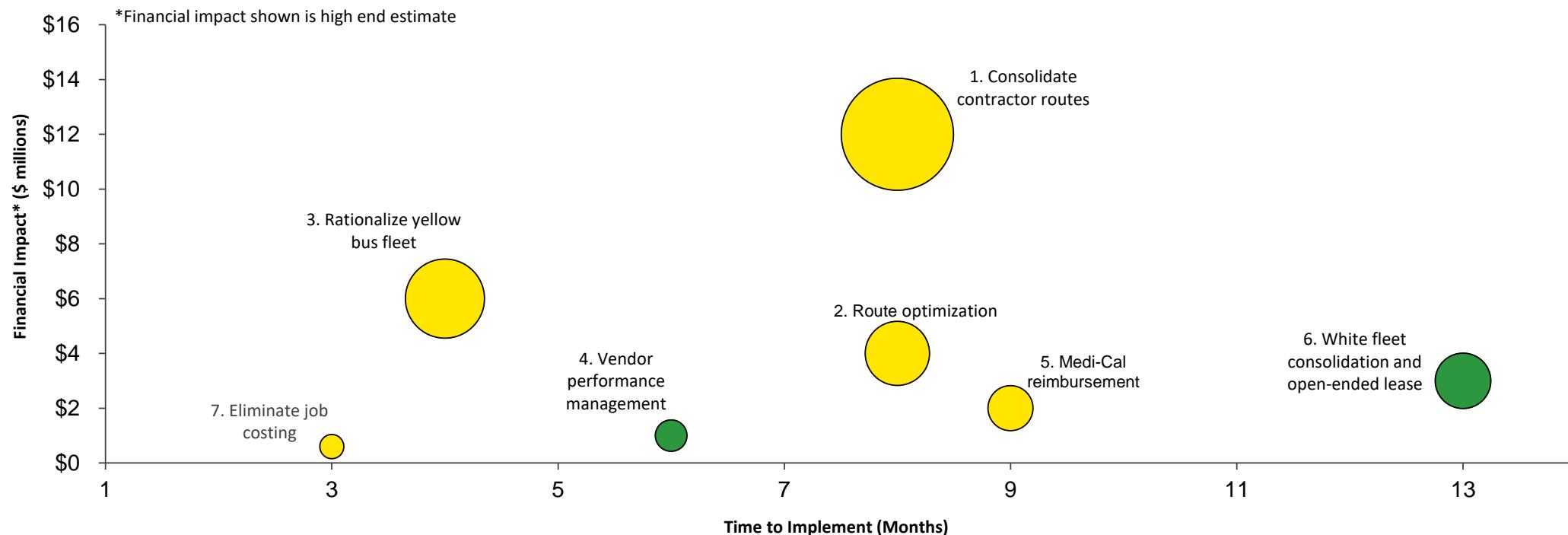
V. Transportation

Recommendation Impact Projection^[1]

- Less complex
- Moderate
- More complex

Illustrative Future State

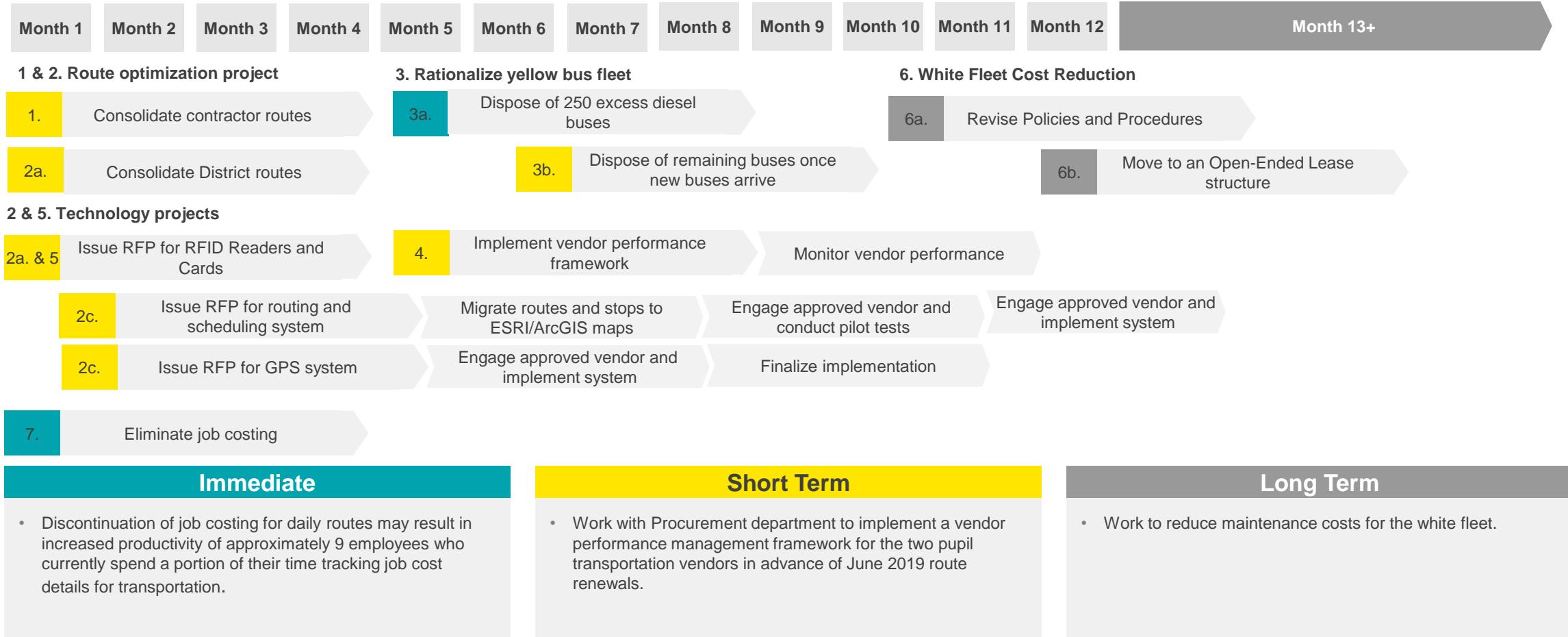
- In order to capture the related cost savings from bus route reduction and consolidation, TSD will need to dispose of excess yellow bus inventory, reduce headcount across Bus Ops and Fleet Maintenance and review contract routes for efficiencies on a regular basis.
- In order to realize and maintain these cost savings, the implementation of reliable and consistent tools and technology for data collection and analysis will be critical in order to identify opportunities to improve operations and address broader efficiency issues.



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V. Transportation

Illustrative Implementation Roadmap^[1]



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Facilities M&O

Methodology and disclaimer

EY was engaged by the CCF to assist LAUSD Management with the following:

- ▶ Understand the current state
- ▶ Analyze facilities practices and expenditures
- ▶ Quantify opportunities for potential savings

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VI. Facilities M&O

Executive Summary

- Less complex
- Moderate
- More complex

Current State	<ul style="list-style-type: none"> ► LAUSD Facilities Maintenance & Operations ("M&O") comprises over 4,000 in-house crafts people and staff, responsible for maintaining the District's ~92.5 million sq. ft. of real estate. In FY18, M&O costs totaled ~\$618 million. ► LAUSD's portfolio of properties has grown over recent years, despite declining enrollment. Many properties are old and nearing the end of their useful lives, increasing emergent demands. The M&O team has prioritized resources to focus on emergency work orders and has implemented initiatives to increase the efficiency of operations, yet continues to be challenged to meet the demands required to maintain LAUSD facilities. 			
Finding	Recommendation	Difficulty ^[1]	Timing ^[1]	Illustrative Impact ^[1]
1. Staffing levels for M&O were significantly reduced in recent years and despite a rebound to an acceptable range based on industry practice, it is unable to fully meet the needs of schools.	<ul style="list-style-type: none"> a. Consider using outside service providers to supplement the workforce and complete routine activities ("Out-Tasking"). b. Consider a transition to an Integrated Facilities Management ("IFM") outsource model for all services where possible. 	● ●	6-9 months + 12 months +	\$4M-\$6M \$6M-\$7M
2. M&O staff are attempting to navigate and improve District processes, but many constraints and inefficiencies exist. Work orders average >30 days for resolution and >75% are of an emergent nature.	<ul style="list-style-type: none"> a. Improve processes to increase productivity of all M&O staff by implementing a tiered service approach for craft work. b. Hire 12 schedulers to reduce the administrative burden on supervisors. 	● ●	9-12 months 9-12 months	\$1M-\$1.5M \$1M-\$1.5M
3. LAUSD's total square footage of schools has grown 24% since 2001 despite a decline in student enrollment of 15%. Administrative office space is old, with large office and workstations allocated to staff.	<ul style="list-style-type: none"> a. Evaluate reducing the property footprint maintained by developing an appraisal process for consolidation or alternative use across the facilities portfolio. Execute on space reductions. Define parameters based on requirements of CA Ed. Code and look to Board for approval. b. Develop a plan to consolidate staff use of administrative office space in alignment with current and future staffing needs. Excess space could be leased to an outside party. 	● ●	12 months + 9-12 months +	\$16M-\$18M \$6M-\$8M
4. Data is being collected on services provided by M&O resources and the condition of facilities, but the information is not shared across functions or tracked against industry best practices.	Develop meaningful metrics that are tracked and reported against industry benchmarks to identify areas of attention for improvement.	●	3-5 months	TBD
			Total	\$34M-\$42M

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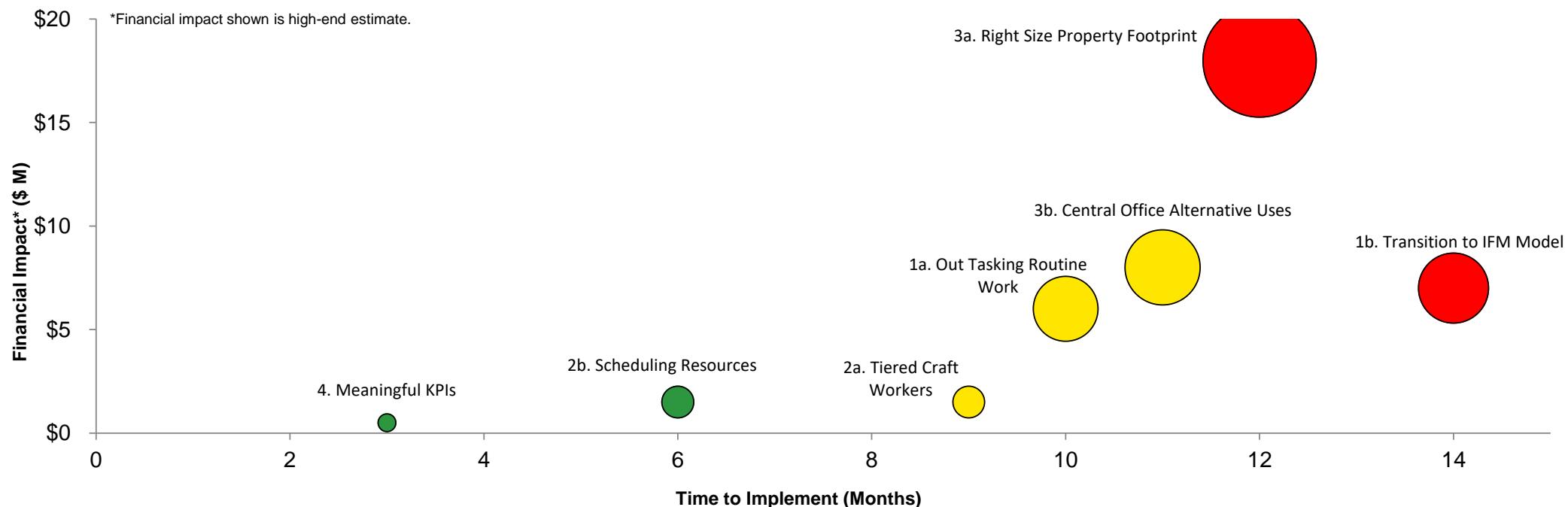
VI. Facilities M&O

Recommendation Impact Projection^[1]

- Less complex
- Moderate
- More complex

Illustrative Future State

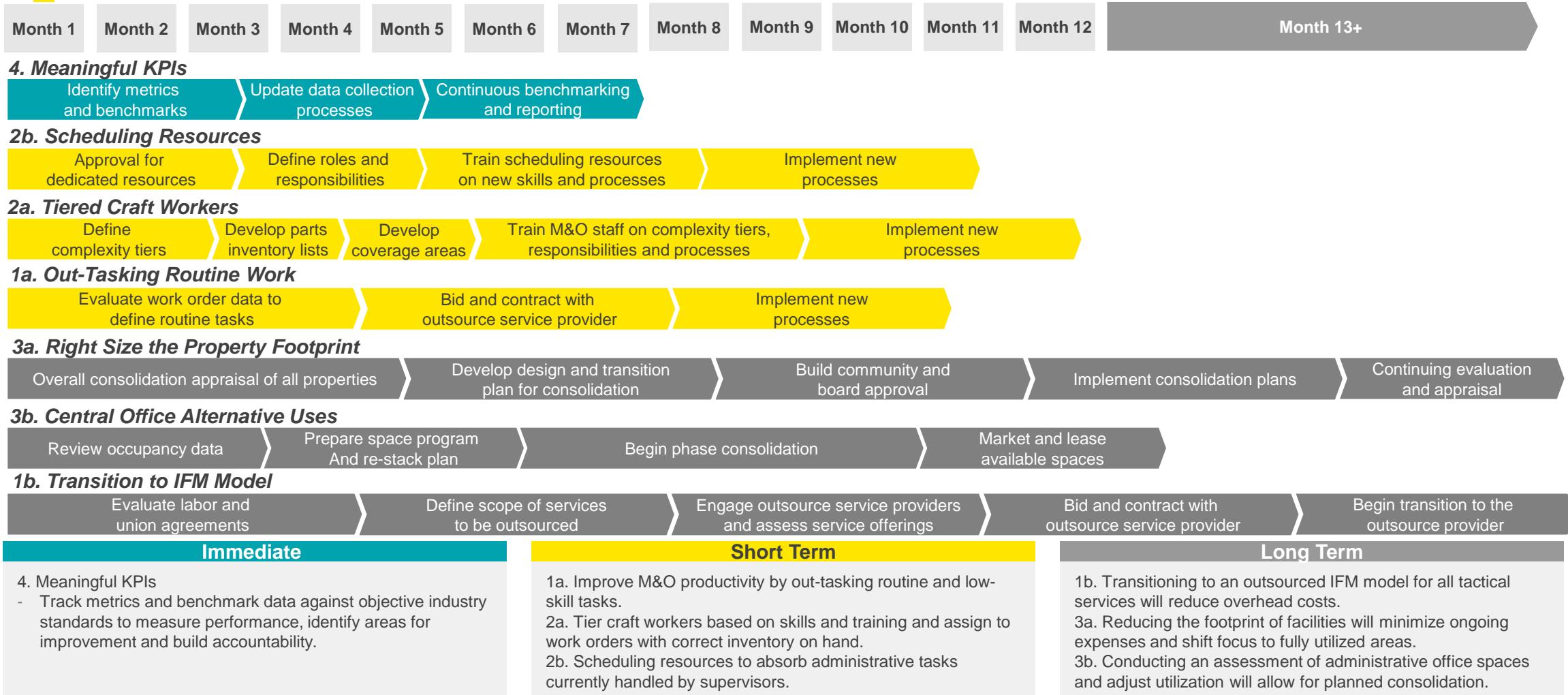
- The Facilities M&O team could operate the division with skilled workers focused on tasks that align with their strengths and experience.
- M&O processes could encourage productivity in the field and utilize outsource service providers for staffing flexibility. In-house M&O staff could be focused on critical needs and prioritize preventative maintenance activities, minimizing breakdowns and service calls.
- The LAUSD portfolio of properties and facility utilization could be aligned to meet strategic needs.



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VI. Facilities M&O

Illustrative Implementation Roadmap^[1]



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Preliminary Draft. Prepared solely for the CCF. Reliance restricted. Does not constitute assurance or legal advice. Please refer to limitations and restrictions on page 2 and 3.

Information Technology

VII. Information Technology

Methodology and disclaimer

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- ▶ Understand the current state
- ▶ Analyze IT practices and expenditures
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VII. Information Technology

Executive Summary (1 of 2)

Current State		<ul style="list-style-type: none"> IT is responsible for building and maintaining the technology needed to support successful learning in LAUSD. At District sites, IT is in charge of surveillance systems, network, alarms, radios, phone systems and PA/intercoms. IT has a 300+ application portfolio supporting the central office, school front office, teachers, students and families. IT supports over 1,300 schools, 400,000+ computing devices, 95,000+ wireless access points and 46,000+ network devices. 			Less complex
	Finding	Recommendation	Difficulty ^[1]	Timing ^[1]	Illustrative Impact ^[1]
Effective Org Structure	1. a) IT spend is overly bond centric. Possible use of bond funds to support operations.	Rebalance the use of bond funds vs. general funds so that projects are capability based rather than funding source centric.	More complex	16-18 months	~\$1.5M-\$2M
	1. b) Multiple and outdated job descriptions exist in LAUSD, causing overhead.	Shift from single job descriptions (currently ~200-300) to streamline job families and reduce approval cycle overhead.	Less complex	4-6 months	~\$1.5M-\$2M
	1. c) Limited insights into the District's buying needs. Demand management of IT Service Management ("ITSM") is imbalanced.	Increase collaboration with Educators so that comprehensive strategy aligns technology capabilities with school requirements.	Moderate	10-12 months	~\$2.5M-\$3M
	1. d) Shadow IT is significant resulting in duplicative resources and decentralized resource management.	Consolidate all IT resources into an organizational structure that supports the District's objectives.	More complex	16-18 months	~\$7M-\$8M
	1. e) Direct and non-direct communication channels to help desks, increasing ticket resolution times.	Optimize and streamline help desks and align to ITSM standard processes.	Less complex	4-6 months	~\$2.5M-\$3M
Standardization	2. a) Multiple vendors with decentralized vendor management for a broad range of infrastructure devices.	Streamline vendor footprint to drive centralization and standardization.	Moderate	16-18 months	~\$3M-\$3.5M
	2. b) Essential commodity functions (e.g., app development, testing, WAN) are managed in-house incurring overhead.	Realize benefits by moving commodity services to a managed service model and increasing use of outsourcing.	More complex	16-18 months	~\$8M-\$9M
	2. c) Enterprise applications are not fully leveraged, increasing application portfolio and costs.	Develop an enterprise applications first approach to fully utilize capabilities.	Moderate	4-6 months	~\$2M-\$2.5M
	2. d) Decentralized security policies may be exposing the enterprise to risk.	Develop comprehensive Enterprise security policies and procedures to encompass needs of all LAUSD functions.	Moderate	8-12 months	~\$1M-\$1.5M
	2. e) Asset management is not consistently applied enterprise-wide.	Develop and operationalize an enterprise IT asset refresh policy.	Less complex	4-6 months	~\$1M-\$1.5M

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VII. Information Technology

Executive Summary (2 of 2)

- Less complex
- Moderate
- More complex

	Finding	Recommendation	Difficulty ^[1]	Timing ^[1]	Illustrative Impact ^[1]
Govern as one body	3. a) Inconsistent IT investment review process limits transparency of investments, prioritization, and budget allocation.	Implement showback/chargeback model for IT services in order to provide transparency into ITD services consumption.	●	10-12 months	~\$1M-\$1.5M
	3. b) Insufficient project reviews, financial delivery metrics and project cost benefit realization tracking.	Establish effective enterprise-wide program management office ("EPMO") and budget oversight committee ("EBOC") with defined investment factors and thresholds.	●	10-12 months	~\$1.5M-\$2M
	3. c) Lack of a formal Enterprise Architecture ("EA") results in duplicative capabilities and non-standard practices, leading to non ITD functions playing an active role in governing technology.	Establish an EA practice and align with business and IT vision and strategies.	●	12-14 months	~\$4.5M-\$5M
	3. d) Organizational change management ("OCM") is immature and a formal operating model is not evident.	Develop a formal operating model and work with other functions to establish enterprise-wide OCM.	●	6-8 months	~\$1M-\$1.5M
Rationalize & Maximize Assets	4. a) Data centers (primary and data recovery ("DR")) exist in high-cost, high-risk geographical areas.	Shift data center to lower cost location, modernize primary data center to align with business needs and outsource DR to the cloud.	●	22-24 months	~\$12M-\$12.6M
	4. b) Application portfolio (~300 active apps) is understated and not rationalized.	Implement application portfolio optimization and rationalize applications to optimize current active application portfolio.	●	6-8 months	~\$4M-\$4.3M
	4. c) Evidence that automation is not in widespread use.	Implement emerging technologies, such as RPA, for routine IT activities and analyze historical data to predict trends.	●	16-18 months	~\$1M-\$1.3M
	4. d) Lack of insights into effective controls into capital expenditure.	Dramatically increase use of cloud to better address capital vs. operational balance.	●	16-18 months	~\$1M-\$1.3M
	4. e) Use of managed service providers ("MSPs") is not optimized.	Streamline MSP to simplify contracts.	●	10-12 months	~\$4M-\$4.5M
				Total	\$60M-\$70M

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VII. Information Technology

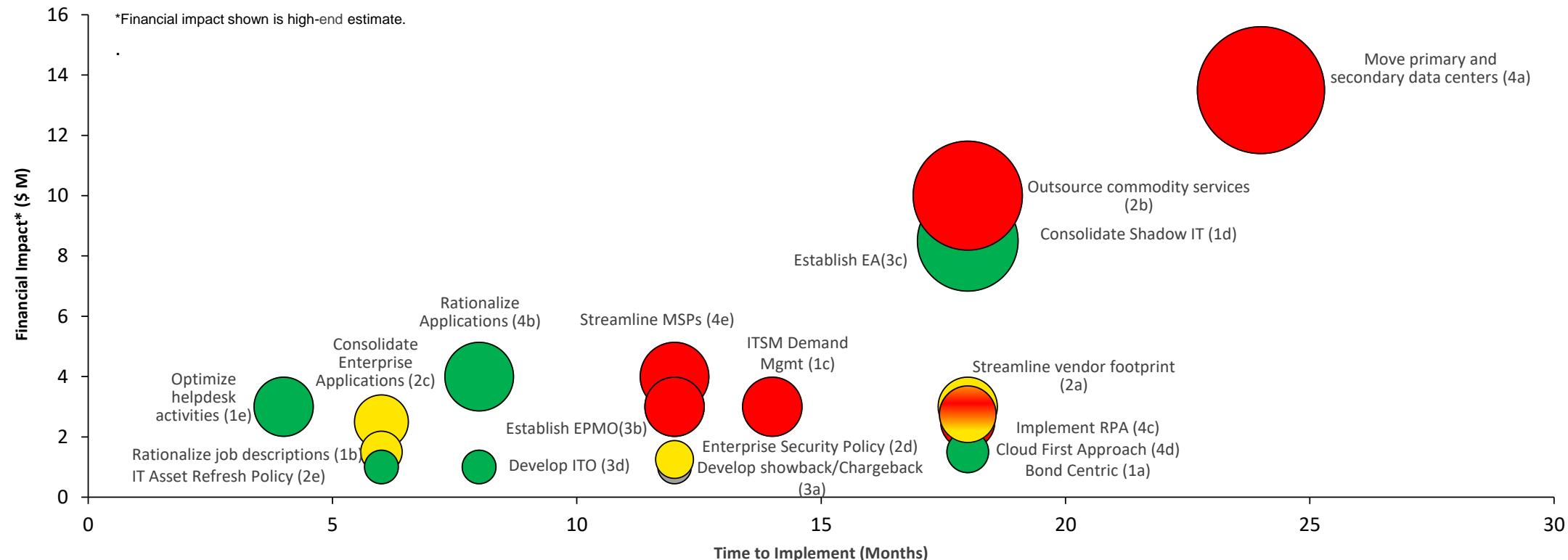
Recommendation Impact Projection^[1]

- Less complex
- Moderate
- More complex

Illustrative Future State

By implementing the IT cost optimization recommendations, ITD and the District may also realize the following benefits:

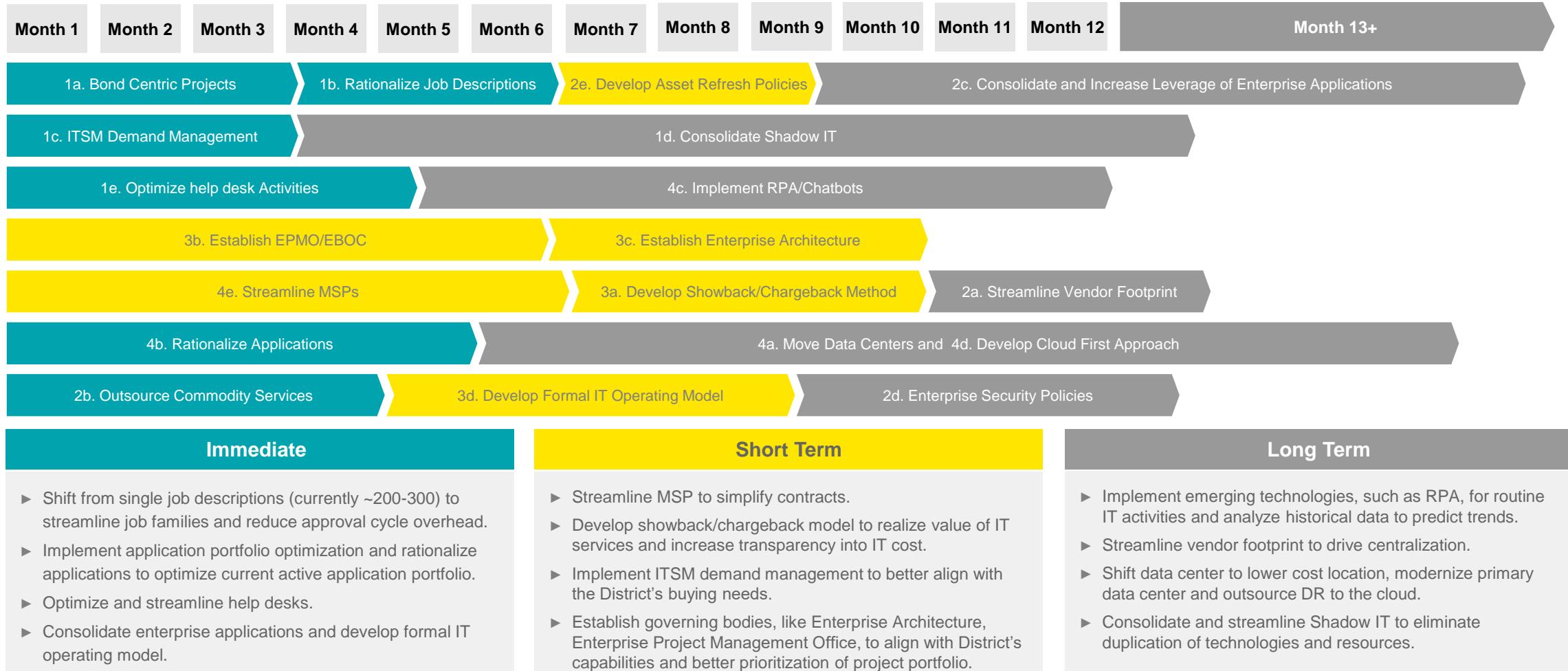
- ▶ Empowered and enhanced partnership between ITD and the District along with effective governance across multiple departments in the District.
- ▶ Improved transparency in finances with better accountability.
- ▶ Balanced capital and operational expenditure and balanced operational and instructional spend.



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VII. Information Technology

Illustrative Implementation Roadmap^[1]



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Budget

VIII. Budget

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- ▶ Analyze select budget department practices and expenditures
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VIII. Budget

Executive Summary

- Less complex
- Moderate
- More complex

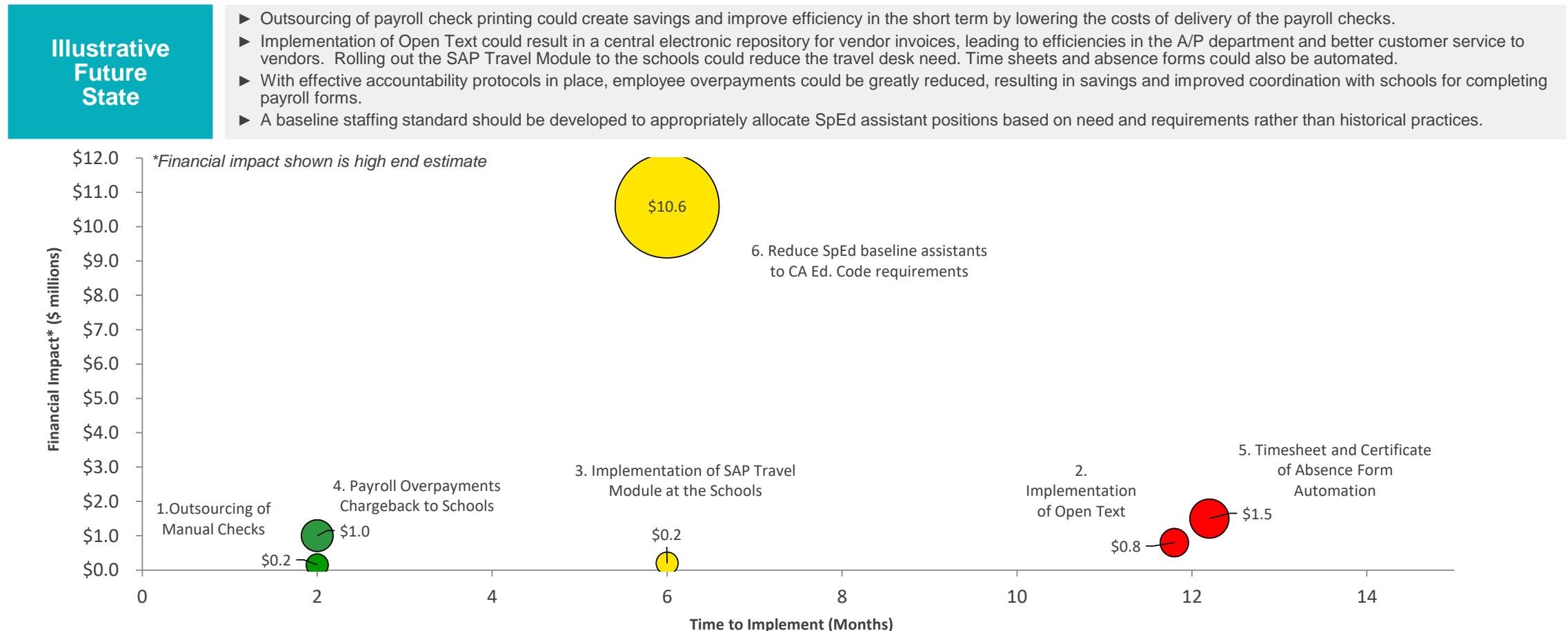
Current State	<ul style="list-style-type: none"> ▶ LAUSD's Budget and Finance departments, including the Office of the CFO, Accounting, Accounts Payable ('AP'), Budget/FP&A, Payroll and Treasury, currently consist of approximately 308 employees with a budgeted personnel cost of ~\$38M in FY19 ▶ Due to recent rounds of budget cuts over the last few years, several of the departments have reduced headcount; However, within areas such as Payroll and AP, there are opportunities for process improvements and automation that could lead to cost reductions. 			
Finding	Recommendation	Difficulty ^[1]	Timing ^[1]	Illustrative Impact ^[1]
1. Manual paper checks make up approximately 20% of payroll disbursements, and these checks are processed, printed, metered, and delivered to the Post Office for mailing.	Engage with a 3 rd party payroll services provider(e.g., ADP) to determine evaluate the possibility of outsourcing the manual payroll check process.	●	3 months	\$150K
2. Vendor invoices are submitted in various formats, creating issues with invoice visibility for the A/P department.	An RFP for the implementation of Open Text technology is currently underway to centralize the majority of vendor invoicing and 3-way match process in SAP.	●	6-12 months	\$800K
3. Booking business travel is automated within SAP at central office, but is a manual process at the schools. A travel help desk manually enters all school travel forms.	Roll-out the automated business travel module to schools to establish consistency and process efficiency.	●	3-6 months	\$200K
4. Time reporters and time approvers are not adhering to the established payroll cut-off dates and paper form submissions are causing payroll errors. Late filing of paperwork leads to erroneous overpayments to employees and penalties and interest owed to California Retirement Systems.	<p>4a. To establish accountability, initiate a policy whereby a portion of overpayments, penalties and interest due to late filing of payroll paperwork could be charged back to the schools or departments (e.g., 50% charge back).</p> <p>4b. Internally prioritize several online payroll interface initiatives (payroll approval, certification of absence form, and self time reporting) that are slated to be implemented. These initiatives are already in process, but are not expected to be completed for several months.</p>	● ●	6 months 12-18 months	\$1M \$1.5M
5. Special Education baseline assistant staffing exceeds CA Ed. Code requirements and has not been adjusted as part of the SpEd division's budget allocation practices.	Consider the appropriate number of "baseline" assistants across pre-K and K-12 based on actual needs (as determined by SpEd division), IEPs, Ed Code, and other requirements.	●	6 months	\$10.6M
			Total	\$14M

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VIII. Budget

Recommendation Impact Projection^[1]

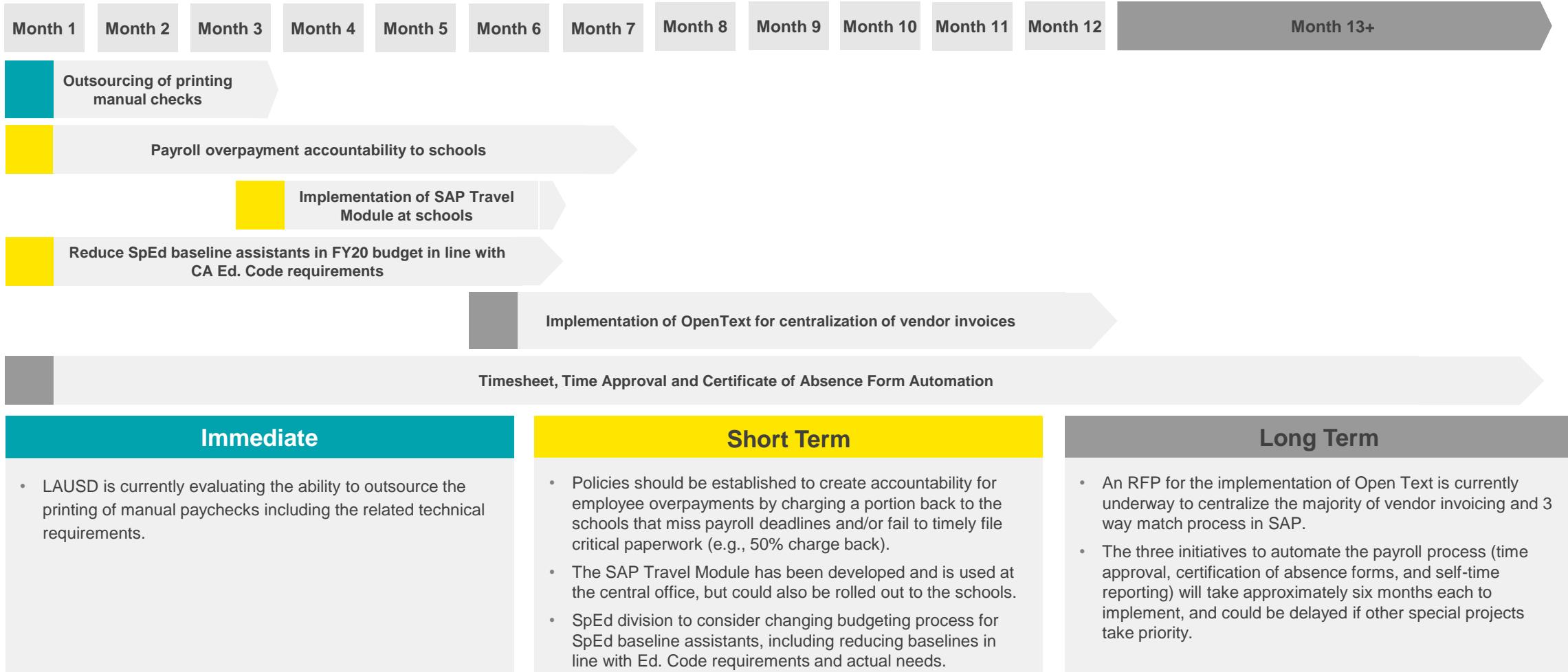
- Less complex
- Moderate
- More complex



Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

VIII. Budget

Illustrative Implementation Roadmap^[1]



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A black and white photograph of a classroom scene. In the foreground, the back of a student's head is visible, wearing a purple and yellow striped shirt. In the middle ground, a teacher with long dark hair, wearing a white ribbed sweater, is facing a chalkboard and writing with chalk. The chalkboard contains mathematical equations: $x = -1$, $a =$, $1) 2 - 4(2)$, and $\pm \sqrt{16} = 4$. In the background, the profile of another student is visible. The overall atmosphere is that of a classroom setting.

Los Angeles Unified School District

DRAFT Efficiencies Discussion Materials - Addendum

CONFIDENTIAL

December 2018

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Estimated low end savings potential of ~\$236M^[1] across all seven areas could be achieved by FY22 if fully implemented successfully (1 of 2)

 Less complex  Moderate  More complex

Category	Recommended areas of focus	Ref	Implementation		Estimated savings by year (\$M) ^[1]				Total (\$M)	
			Difficulty ^[2]	Timing ^[2]	FY19	FY20	FY21	FY22	Low	High
Procurement <i>Savings estimate: \$59.5M - \$80M</i>	Technology strategic sourcing program	1		6-9 months	9	9	9	9	9	12.5
	Food Services, Professional Services, Transportation, General Supplies, Facilities	2,3,4,6,7		6-9 months	36	36	36	36	36	48
	Textbooks strategic sourcing program	5		9-10 months	3.5	3.5	3.5	3.5	3.5	4.5
	Special Education strategic sourcing program	8		12 months +	11	11	11	11	11	15
Workers' Compensation <i>Savings estimate: \$23M - \$38M</i>	Enhance internal claim management and oversight capabilities	1		12-36 months	2	4	7	7	7	10
	Renegotiate the fee agreement with existing third party claims administrator	2		3 months	1	1	1	1	1	3
	Reduce telephonic case management and defense attorney utilization	3		3 months	1	1	1	1	1	1
	Formalize WC cost allocation and Return to Work ("RTW") program across the District	4		12-36 months	1	4	9	14	14	24
Food Services <i>Savings estimate: \$24M - \$45M</i>	Transfer General Fund food expenses to Cafeteria Fund: FTE expenses	1a		6 months	5	11	11	11	11	11
	Transfer General Fund food expenses to Cafeteria Fund: Job Costs, M&O, etc.	1b		6 months	6	13	13	13	13	16
	Remove requirement to staff Food Services employees for a minimum of 4 hours/day	3		12 months +					-	18
Transportation <i>Savings estimate: \$22M - \$29M</i>	Consolidate ~175 contractor bus routes (due for renewal in June 2019) and certain District bus routes based on actual ridership	1-2		6-12 months	10.5	14	14	14	14	16
	Rationalize yellow bus fleet to optimize fleet mix and reduce maintenance and fuel costs	3		3-9 months	4.6	4.6	4.6	4.6	4.6	6
	Implement a vendor performance management framework for the bus contractors to improve on-time performance and capture all liquidated damages	4		3-9 months	0.5	0.5	0.5	0.5	0.5	1
	Install radio-frequency identification ("RFID") readers on all buses for student ridership counts and provide RFID cards to students	5		12 months	1	1	1	1	1	2
	Review and revise policies and procedures regarding LAUSD employee eligibility for a District-owned vehicle and transition to leasing structure for light-duty white fleet	6		12 months +	0.5	1	1	1	1	3
	Eliminate job costing for daily bus routes	7		3-6 months	0.3	0.3	0.3	0.3	0.3	0.6

Note 1: Figures in the annual distribution represent the low end of the illustrative savings opportunity and include both the General Fund and other funds. Illustrative amounts reflect a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Note 2: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors.

Estimated low end savings potential of ~\$236M^[1] across all seven areas could be achieved by FY22 if fully implemented successfully (2 of 2)

Legend:  Less complex  Moderate  More complex

Category	Recommended areas of focus	Ref	Implementation		Estimated savings by year (\$M) ^[1]				Total (\$M)	
			Difficulty ^[2]	Timing ^[2]	FY19	FY20	FY21	FY22	Low	High
Facilities M&O <i>Savings estimate: \$34M - \$42M</i>	Utilize outside service providers to complete routine activities; transition to an outsource model for all services	1a-1b		12 months +			4	10	10	13
	Implement a tiered service approach for craft work; hire 12 schedulers to reduce administrative burden on supervisors	2a-2b		9-12 months +	1	2	2	2	2	3
	Develop an appraisal process for consolidation or alternative use across the facilities portfolio	3a		12 months +			7	16	16	18
	Develop a plan to consolidate staff use of office space at 333 Beaudry in alignment with future staff planning	3b		9-12 months +			6	6	6	8
IT <i>Savings estimate: \$60M - \$70M</i>	Realign the organization to current and future technology needs and dramatically increase the use of outsourcing for commodity functions	1a-1e		4-18 months			7.5	15	15	18
	Establish enterprise standards, policies and procedures to ensure optimal use of enterprise assets	2a-2e		4-18 months	3	15	15	15	15	18
	Develop Enterprise Architecture and Enterprise Project Management office to ensure consistent project prioritization and alignment with District capabilities.	3a-3d		6-14 months	4	8	8	8	8	10
	Move primary data center to low cost locations along with Data Recovery ("DR") to cloud and rationalized application portfolio.	4a-4e		6-24 months			11	22	22	24
Budget <i>Savings estimate: \$14M</i>	Outsource payroll check printing	1		3 months	0.2	0.2	0.2	0.2	0.2	0.2
	Implement OpenText to centralize invoice processing and improve 3-way match	2		6-12 months		0.8	0.8	0.8	0.8	0.8
	Rollout / prioritize IT projects to automate school business travel and certain manual payroll processes	3, 4b		3-18 months	0.7	1.7	1.7	1.7	1.7	1.7
	Initiate a policy whereby a portion of overpayments, penalties and interest due to late filing of payroll paperwork will be charged back to the schools	4a		6 months		1	1	1	1	1
	Consider the appropriate number of "baseline" assistants across pre-K and K-12 based on actual needs (as determined by LAUSD), IEPs, Ed Code, and other requirements.	5		6 months	10.6	10.6	10.6	10.6	10.6	10.6
Total estimated savings (including figures from previous page)					\$17.9	\$123.2	\$197.7	\$236.2	\$236.2	\$317.9

Note 1: Figures in the annual distribution represent the low end of the illustrative savings opportunity and include both the General Fund and other funds. Illustrative amounts reflect a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Note 2: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors.

Procurement

Executive Summary (1 of 2)

Current State

- LAUSD spends ~\$3B annually on the procurement of goods and services across the District, of which ~\$1.5B is paid through the General Fund.
- Management's primary focus was on procurement savings in the General Fund but also included some spend in related funds (e.g., food services, Cafeteria Fund).
- Approximately \$900M (which includes ~\$385M of food services, transportation, facilities, and IT spend, see page 7) of the total spend (\$3B) was identified by Management for consideration.

Procurement Practices and Organization

- LAUSD has a central procurement group that handles many administrative and compliance-related activities and could spend more time driving cost efficiencies.
- Due to budget cuts over the past 10 years, the procurement group has trended toward more decentralization of procurement, eroding the buying leverage of the District and increasing costs across certain categories (e.g. professional services, special education).
- An emphasis on choice and lack of adherence to procurement best practices due to decentralization has limited the procurement group's ability to control cost.
- Current practice awards items by line level, which does not follow procurement best practices (e.g. bundling, consolidation) and adds substantial complexity to qualify, negotiate with, and manage a very large pool of vendors.
- The District policies and practices include highly detailed specifications of certain goods and services (e.g., facilities maintenance and operations), which have restricted the use of a broad set of qualified suppliers, further reducing competition.
- The procurement group may be understaffed given the current volume of vendors, may not have the appropriate skills/training and does not have the proper mandate to drive best-practice procurement efficiencies (e.g., strategic sourcing, vendor consolidation).

Warehouse Operations

- The group of principals interviewed expressed frustration with the ease, quality, value, and timeliness of services provided by warehouse operations.
- Warehouse operations purchases in bulk and marks up goods and services to schools/departments by ~47% to cover a portion of its annual operating costs (~\$32M).
- A sample of the top 50 items purchased in general supplies found that in many cases, single-unit retail pricing from an online retailer could be less expensive than the warehouse pricing, suggesting that the current pricing model and/or benefit of the warehouse may need to be further evaluated.

Recommendations

- Conduct a one-time, comprehensive strategic sourcing program/initiative focusing on eight major spend categories to drive improved pricing (i.e., re-compete spend categories, consolidate vendors and implement more advanced procurement strategies).
- Implement more user-friendly procurement tools (e.g., e-Catalogs) to streamline the procurement process so that adequate controls are in place to eliminate off-contract spend.
- Implement changes to procurement policies and consolidate "shadow" procurement resources to enable sustainability of any realized cost savings.
- Conduct a deep-dive assessment of the current mark up pricing model and value (cost, service, quality) to the District of the warehouse operations function.

Sources: LAUSD Management FY18 AP data, stakeholder interviews

Executive Summary (2 of 2)

- Less complex
- Moderate
- More complex

Finding	Recommendation	Difficulty ^[1]	Timing ^[1]	Illustrative Impact ^[1]
1. Technology: Multiple manufacturers used through IT distributor. No use of reverse auctions for end user hardware (laptops, desktops). Limited recent competition and consolidation activities.	Conduct a comprehensive sourcing event for IT hardware directly with OEMs. Leverage dynamic bidding (reverse auctions). Consolidate to two major manufacturers of equipment for laptops/desktops.	●	6-9 months	~\$9M-\$12.5M
2. Food Services: Food and dairy categories have not been competed or moved to a new supplier in some years.	Conduct a comprehensive sourcing event for both food and dairy to drive improved pricing with incumbents or new suppliers.	●	6-9 months	~\$10M-\$13M
3. Professional Services: Bench contracts are used to pre-qualify vendors with pre-negotiated rates but represent the minimum discount available as no work is guaranteed.	Professional service bench vendors should be further competed and consolidated to a minimum set of vendors that meet the requirements of the District.	●	6-9 months	~\$9M-\$12M
4. Transportation: A comprehensive evaluation of the supplier base has not been performed in the past year, and ~175 pupil transportation routes are set to expire in 2019.	Conduct a comprehensive sourcing event for all pupil transportation vendors with bids based on routes rather than bus capacity.	●	6-9 months	~\$7M-\$10M
5. Textbooks: Grades 9-12 textbooks are selected by the school vs. centrally mandated, deleveraging spend and adding complexity to the organization.	Consolidate core textbooks and conduct a comprehensive sourcing event for consolidated purchasing.	●	9-10 months	~\$3.5M-\$4.5M
6. Facilities M&O: LAUSD maintains over 900 unique vendors for maintenance and operations, most of which are small providers. This deleverages spend and adds complexity into the organization.	Conduct a comprehensive sourcing event for Integrated Facilities Management (“IFM”). Consolidate vendors to primary IFM vendor or major “trade” vendors to reduce complexity and administration and improve purchasing power.	●	6-9 months	~\$5M-\$6M
7. General Supplies: Contracts are awarded by item level rather than as a full comprehensive portfolio. While some items can be procured more cheaply, a number of items can be more costly.	Conduct a comprehensive sourcing event for a full service strategic vendor for all general supply items and set profit margins across the portfolio rather than individually negotiating price by item.	●	6-9 months	~\$5M-\$7M
8. Special Education: Special education procures its own services currently, using a large set of vendors. Traditional competition and best practice strategic sourcing are not practiced.	Conduct a comprehensive sourcing event for special education services across the District. Consolidate to fewer vendors and transition ongoing procurement into centralized procurement to ensure a more effective procurement practice.	●	12+ months	~\$11M-\$15M
			Total	~\$59.5M-\$80M

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Finding #1: Technology: ~\$9M – \$13M illustrative savings potential [1]

Relevant ^[2] \$	Suppliers
\$99M	<ul style="list-style-type: none"> >500 unique vendors identified in AP data. Top 10 vendors make up 80% of spend, with top 5 suppliers contributing 68% of spend.

See footnote 1 below

Difficulty: 
Timing: 6-9 months
Illustrative \$: \$9M-\$12.5M

Findings
<ul style="list-style-type: none"> LAUSD strategically sources and standardizes its IT infrastructure with a single vendor (Dell), which is best practice to gain economies of scale and reduce complexity. LAUSD uses an IT distributor to purchase end-user hardware (e.g., desktops, laptops); however, spend is not concentrated with any one manufacturer (e.g., Dell, HP, Apple, etc.). Hardware refresh policies are not standardized across the District, nor are total computer requirements (e.g., one computer per student). A number of applications reside outside of the IT Department's direct control (e.g., Maximo). This practice of "Shadow IT" or decentralized spend deleverages IT resources and adds organizational complexity. Education software purchasing is decentralized to allow greater choice for schools. LAUSD is currently migrating to Remedy to manage IT assets (a recommended approach). The IT Department has historically tried to establish bench contracts to pre-negotiate rates; however, no minimum order quantities are guaranteed, which would typically reflect the minimum available discounts.

Recommendations
<ul style="list-style-type: none"> Consider centralizing procurement and management of end-user devices and software and identify key suppliers to increase LAUSD's buying position and reduce complexity of maintenance: <ul style="list-style-type: none"> Further standardize end-user devices, similar to the current IT infrastructure practices. Select core software products and limit choice to gain more economies of scale. Better track IT assets (e.g., software licenses and physical devices). Establish strategic partnerships with IT contractors to gain more favorable pre-negotiated rates. Conduct a comprehensive strategic sourcing project.

Sourcing & Procurement Assessment ^[3]	
Best Practices	Opportunity
Comprehensive Strategic Sourcing	Medium
Supplier Consolidation	High
Specification Optimization	Low
Service Level Agreements	Low
Volume Pricing Agreements	High
Early Payment Discounts	Medium
Low Cost Country Sourcing	Low
Negotiations & Benchmarking	Medium
Cost Transparency	Low
Reverse Auctions	High
Consumption Reduction	High
Offsets	Constraint
Market Conditions	Low
Commodity	Low
Contract Termination	Low

Sources: LAUSD Management FY18 AP data, stakeholder interviews

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Note 2: Represents the estimated portion of the current LAUSD budgeted spend in this category that may be relevant for assessment of potential savings opportunities, as determined with LAUSD management.

Note 3: Sourcing & Procurement assessment was performed to determine opportunity potential for each category of spend based on current state, input from LAUSD management, industry benchmarks, and industry leading practice.

Finding #2: Food Services: ~\$10M – \$13M illustrative savings potential [1]

Relevant ^[2] \$	Suppliers
\$133M	<ul style="list-style-type: none"> ~40 unique vendors identified in AP data. Top 4 vendors make up 80% of spend.

See footnote 1 below

Difficulty: 
Timing: 6-9 months
Illustrative \$: \$10M-\$13M

Findings
<ul style="list-style-type: none"> LAUSD has historically sourced food items by line level rather than as a full comprehensive portfolio. This practice may achieve better unit prices in some categories but does not take advantage of the full economies of scale for all food-related categories. Select categories (e.g., dairy and produce) are delivered to the schools directly on a daily basis and other categories (e.g., frozen grocery) are delivered to the LAUSD warehouse where it is tempered and then transported to the Newman Nutrition Center for preparation before being shipped to schools. LAUSD has adopted a number of policies to focus on better nutrition (e.g., Good Food Purchasing Program, Chicken Standard, etc.) and employs a nutritionist to formulate menus and cut costs. This is a best practice and is recommended. Contracts have limited use of volume pricing agreements and early payment discounts (e.g., only a 1% rebate if purchased volumes are 10% over the contracted maximum amount). Reverse auctions were tried in the past; however, open bids resulted in higher prices and the practice was discontinued before maturing.

Recommendations
<ul style="list-style-type: none"> Consider combining the food services program as a single portfolio and developing a relationship with a strategic vendor to gain better pricing through economies of scale and reduce organizational complexity. Consider incorporating tiered pricing to achieve better pricing. For more commoditized items (e.g., dairy), consider using a mature reverse auction process.

Sourcing & Procurement Assessment ^[3]	
Best Practices	Opportunity
Comprehensive Strategic Sourcing	High
Supplier Consolidation	Low
Specification Optimization	Low
Service Level Agreements	Low
Volume Pricing Agreements	Medium
Early Payment Discounts	Medium
Low Cost Country Sourcing	Low
Negotiations & Benchmarking	Low
Cost Transparency	Medium
Reverse Auctions	High
Consumption Reduction	Low
Offsets	Constraint
Market Conditions	Medium
Commodity	Medium
Contract Termination	Low

Sources: LAUSD Management FY18 AP data, stakeholder interviews, Goldstar contract, Driftwood contract, Good Food Purchasing Program, grocery RFP

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Note 2: Represents the estimated portion of the current LAUSD budgeted spend in this category that may be relevant for assessment of potential savings opportunities, as determined with LAUSD management.

Note 3: Sourcing & Procurement assessment was performed to determine opportunity potential for each category of spend based on current state, input from LAUSD management, industry benchmarks, and industry leading practice.

Finding #3: Professional Services: ~\$9M – \$12M illustrative savings potential [1]

Relevant ^[2] \$	Suppliers
\$173M	<ul style="list-style-type: none"> ~3,000 unique vendors identified in AP data. Top 205 vendors make up 80% of spend, with top 5 suppliers contributing 26% of spend.

See footnote 1 below

Difficulty: 
Timing: 6-9 months
Illustrative \$: \$9M-\$12M

Findings
<ul style="list-style-type: none"> LAUSD has an established process for all professional services: <ul style="list-style-type: none"> >\$250K follows a formal RFP process \$25K – \$250K follows a less formalized process (but still establishes scoring metrics) <\$25K is at the discretion of the schools/buyers. Historically, all services over \$10K were centralized to apply procurement best practices, however, this was discontinued. When RFPs are sent out for competitive bid, a historical list of vendors (maintained at the Warehouse) are invited to bid. A process to ensure that a number of new vendors are invited to bid is not consistently applied. This practice limits the number of qualified bidders. Bench contracts are used to pre-qualify vendors – this does not guarantee an award and thus may not yield the maximum discount.

Recommendations
<ul style="list-style-type: none"> Centralize all spend above \$10K and focus central procurement efforts on establishing bench contracts for schools to use rather than maintain low spend vendors. Consistently apply the process in place to ensure that a number of new vendors are invited to bid. Consolidate vendors and establish rate cards or tiered pricing with strategic category partners to reduce complexity and administrative workload of maintaining low spend vendors. Evaluate piggybacking opportunities with other government entities or use other established government contracts (e.g., US General Services Administration) for professional services.

Sources: LAUSD Management FY18 AP data, LAUSD Procurement Manual – 6th Edition, stakeholder interviews

Sourcing & Procurement Assessment ^[3]	
Best Practices	Opportunity
Comprehensive Strategic Sourcing	Medium
Supplier Consolidation	Medium
Specification Optimization	Low
Service Level Agreements	Low
Volume Pricing Agreements	Medium
Early Payment Discounts	Low
Low Cost Country Sourcing	Low
Negotiations & Benchmarking	Low
Cost Transparency	Low
Reverse Auctions	Low
Consumption Reduction	Low
Offsets	Constraint
Market Conditions	Low
Commodity	Low
Contract Termination	Low

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Note 2: Represents the estimated portion of the current LAUSD budgeted spend in this category that may be relevant for assessment of potential savings opportunities, as determined with LAUSD management.

Note 3: Sourcing & Procurement assessment was performed to determine opportunity potential for each category of spend based on current state, input from LAUSD management, industry benchmarks, and industry leading practice.

Finding #4: Transportation: ~\$7M – \$10M illustrative savings potential [1]

Relevant ^[2] \$	Suppliers
\$87M	<ul style="list-style-type: none"> ▶ >200 unique vendors identified in AP data. ▶ Top 5 vendors make up ~80% of spend, with one vendor accounting for 40% of transportation spend in FY18.

Findings
<ul style="list-style-type: none"> ▶ The Transportation Services Department (“TSD”) spends ~\$56M per year with its two primary transportation vendors. ~175 of the contractor transportation routes are set to expire in June 2019. ▶ There is excess capacity on contractor buses due to various factors (e.g., bus routes are planned based on eligibility rather than actual ridership, contracts require 10% extra buses and staff on standby). ▶ TSD procures LAUSD-owned and leased vehicles, parts, fuel and equipment from >200 vendors. A comprehensive evaluation of the supplier base has not been performed in the past year to determine the potential for supplier consolidation (or fragmenting) opportunities to drive per unit and SG&A costs down. ▶ Three primary fuel providers were identified, some of which have interdependencies (e.g., Trillium requires that it supplies fuel with the equipment).

Recommendations
<ul style="list-style-type: none"> ▶ In advance of the ~175 contractor routes expiring in June 2019, comprehensively evaluate all transportation vendors and contracts to arrive at a sourcing strategy and identify key suppliers to support route needs. Bids should be based on routes required rather than bus capacity. An opportunity may exist to increase the number of bidders by regionalizing routes. ▶ Conduct a comprehensive sourcing event for all vehicle, parts, fuel and equipment vendors. ▶ Consolidate and engage in reverse auction bidding for the fuel contracts.

Sources: LAUSD Management FY18 AP data; First Student, STA, Trillium, Falcon Fuels and Delta Liquid Energy contracts; J-4: White Fleet Replacement Plan; LAUSD Procurement Manual – 6th Edition; stakeholder interviews

See footnote 1 below

Difficulty: 
 Timing: 6-9 months
 Illustrative \$: \$7M-\$10M

Sourcing & Procurement Assessment ^[3]	
Best Practices	Opportunity
Comprehensive Strategic Sourcing	High
Supplier Consolidation	Medium
Specification Optimization	Low
Service Level Agreements	Medium
Volume Pricing Agreements	Medium
Early Payment Discounts	Medium
Low Cost Country Sourcing	Medium
Negotiations & Benchmarking	Low
Cost Transparency	Low
Reverse Auctions	Medium
Consumption Reduction	Medium
Offsets	Constraint
Market Conditions	Medium
Commodity	High
Contract Termination	Low

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Note 2: Represents the estimated portion of the current LAUSD budgeted spend in this category that may be relevant for assessment of potential savings opportunities, as determined with LAUSD management.

Note 3: Sourcing & Procurement assessment was performed to determine opportunity potential for each category of spend based on current state, input from LAUSD management, industry benchmarks, and industry leading practice.

Finding #5: Textbooks: ~\$3M – \$5M illustrative savings potential ^[1]

Relevant ^[2] \$	Suppliers
\$117M	<ul style="list-style-type: none"> ~150 unique vendors identified in AP data. Top 3-4 vendors account for ~80% of textbook spend, with Benchmark Education Company accounting for 60% of textbook spend.

See footnote 1 below

Difficulty: 
Timing: 9-10 months
Illustrative \$: \$3.5M-\$4.5M

Findings
<ul style="list-style-type: none"> Textbook selection is largely dictated by the State of California through 8th grade – LAUSD selects from that list which textbooks are available for teachers to use. Grades 9-12 textbook selections are “board adopted”, giving Districts more control over this cohort. LAUSD has an understanding of its aggregate textbook demand; however, it does not have an understanding of textbook demand from other California districts or of the price other districts are paying for their textbooks. Digital textbooks are currently procured via two methods: bundled with a textbook or as a stand-alone digital copy. Procuring digital copies could reduce costs but may prove challenging to navigate due to the Williams Sufficiency Act regarding equal access to instructional materials. An effort to understand how many pupils would satisfy the digital requirements under the Act would be required. No evidence of early payment discounts found.

Recommendations
<ul style="list-style-type: none"> Consider reducing the number of high school textbook options schools can select from to increase buyer power and consolidate spend. Investigate feasibility of strategic partnerships with other California districts to strengthen collective purchasing power, or piggyback off of potentially more favorable California district textbook contracts. Investigate feasibility of implementing digital textbooks in the classroom to procure cheaper books. Improve early payment discount terms for textbooks through negotiations with suppliers.

Sourcing & Procurement Assessment ^[3]	
Best Practices	Opportunity
Comprehensive Strategic Sourcing	High
Supplier Consolidation	Medium
Specification Optimization	Low
Service Level Agreements	Low
Volume Pricing Agreements	Low
Early Payment Discounts	Medium
Low Cost Country Sourcing	Low
Negotiations & Benchmarking	Low
Cost Transparency	Low
Reverse Auctions	Low
Consumption Reduction	Low
Offsets	Constraint
Market Conditions	Medium
Commodity	Low
Contract Termination	Low

Sources: LAUSD Management FY18 AP data; Williams Sufficiency Act; LAUSD Procurement Manual – 6th Edition; stakeholder interviews

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Note 2: Represents the estimated portion of the current LAUSD budgeted spend in this category that may be relevant for assessment of potential savings opportunities, as determined with LAUSD management.

Note 3: Sourcing & Procurement assessment was performed to determine opportunity potential for each category of spend based on current state, input from LAUSD management, industry benchmarks, and industry leading practice.

Finding #6: Facilities Maintenance and Operations: ~\$5M – \$6M illustrative savings potential [1]

Relevant ^[2] \$	Suppliers
\$66M	<ul style="list-style-type: none"> ~1,500 unique vendors identified in AP data. Top 114 vendors make up 80% of spend, with top 5 vendors contributing to 18% of total spend.

See footnote 1 below

Difficulty: 
Timing: 6-9 months
Illustrative \$: \$5M-\$6M

Findings
<ul style="list-style-type: none"> The Facilities M&O team insources the majority of facilities management work and uses vendors to augment its staff during peak demand. This hybrid approach does not take advantage of LAUSD's scale. Maximo is LAUSD's facilities management database used to store facility information and prioritize projects. A facility condition index was recently completed to assess and inventory all of LAUSD's facilities. This is a best practice and LAUSD should continue developing this capability to gain greater transparency of upcoming maintenance to provide select contractors a guaranteed minimum amount of work at better negotiated rates. Job Order Contracting ("JOC") is used to control project costs and is a best practice. Historically, a number of parts have been specified to reach higher quality standards and extend the useful life of the asset, which can be more costly.

Recommendations
<ul style="list-style-type: none"> Consider identifying a strategic vendor to support all facilities maintenance work (e.g., JLL or CBRE), recognizing that certain labor agreement terms may have made this option challenging historically. Consider combining Facilities M&O into regions and consolidating vendors to a few strategic partners to gain better pricing, reduce administrative overhead and support the operations rather than working with a broader variety of smaller vendors. Given certain small business requirements, consider requiring that a percentage of the work with strategic partners could go to businesses meeting those particular requirements. Review items that may have been over-specified to reduce costs. For procurement of commoditized items (e.g., janitorial supplies), consider using reverse auctions.

Sources: LAUSD Management FY18 AP data, Facilities Maintenance - with cost centers, LAUSD interviews

Sourcing & Procurement Assessment^[3]

Best Practices	Opportunity
Comprehensive Strategic Sourcing	High
Supplier Consolidation	High
Specification Optimization	High
Service Level Agreements	Low
Volume Pricing Agreements	Medium
Early Payment Discounts	Low
Low Cost Country Sourcing	Low
Negotiations & Benchmarking	Low
Cost Transparency	Low
Reverse Auctions	Medium
Consumption Reduction	Low
Offsets	Constraint
Market Conditions	Low
Commodity	Low
Contract Termination	Low

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Note 2: Represents the estimated portion of the current LAUSD budgeted spend in this category that may be relevant for assessment of potential savings opportunities, as determined with LAUSD management.

Note 3: Sourcing & Procurement assessment was performed to determine opportunity potential for each category of spend based on current state, input from LAUSD management, industry benchmarks, and industry leading practice.

Finding #7: General Supplies: ~\$5M – \$7M illustrative savings potential [1]

Relevant ^[2] \$	Suppliers
\$45M	<ul style="list-style-type: none"> >1,000 unique vendors identified in AP data. Top 69 vendors make up 80% of spend, with top 5 vendors contributing to 28% of total spend.

See footnote 1 below

Difficulty: 
Timing: 6-9 months
Illustrative \$: \$5M-\$7M

Findings
<ul style="list-style-type: none"> LAUSD procures general supplies to resell to schools with an average mark up across all categories of ~47% (see Appendix for Warehouse Margin Analysis). This mark up is used to fund warehouse operations, including product costs, receiving, storage, picking, packing and delivery. General supply items are procured at an item level bulk purchase rather than partnering with a strategic partner (e.g., Staples, Office Depot). P-Card usage for general supplies was \$12M in the prior year. Through interviews with select principals, it was noted that using the warehouse for general supplies can be particularly difficult due to the process for placing orders, unfavorable pricing, delivery delays and product quality issues.

Recommendations
<ul style="list-style-type: none"> Consider combining the general supplies program as a single portfolio and partnering with a strategic vendor (e.g. Staples, Office Depot) to gain better pricing across the portfolio. Centralize spend for general supplies to reduce instances of receiving retail pricing for supplies. Consider performing a specification optimization project to review the specifications for certain items to identify opportunities to standardize on a more cost-efficient solution. In addition to a performing a deep-dive assessment of the warehouse operations, consider doing a customer satisfaction survey to understand general sentiment of the warehouse and the challenges for greater usage of the warehouse rather than buying items at a store or through an online platform.

Sourcing & Procurement Assessment ^[3]	
Best Practices	Opportunity
Comprehensive Strategic Sourcing	Medium
Supplier Consolidation	High
Specification Optimization	Medium
Service Level Agreements	Low
Volume Pricing Agreements	Medium
Early Payment Discounts	Medium
Low Cost Country Sourcing	Medium
Negotiations & Benchmarking	Low
Cost Transparency	Low
Reverse Auctions	Medium
Consumption Reduction	Low
Offsets	Constraint
Market Conditions	Low
Commodity	Low
Contract Termination	Low

Sources: LAUSD Management FY18 AP data, Warehouse FY18 PO, Credit-Card-All_Trans-7-1-17 to 6-30-18, Audit_Report-Buyer_Card-11-30-17, LAUSD interviews

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Note 2: Represents the estimated portion of the current LAUSD budgeted spend in this category that may be relevant for assessment of potential savings opportunities, as determined with LAUSD management.

Note 3: Sourcing & Procurement assessment was performed to determine opportunity potential for each category of spend based on current state, input from LAUSD management, industry benchmarks, and industry leading practice.

Finding #8: Special Education: ~\$11M – \$15M illustrative savings potential [1]

Relevant ^[2] \$	Suppliers
\$184M	<ul style="list-style-type: none"> >700 unique vendors identified in AP data. Top 38 vendors make up 80% of spend, with top 5 vendors contributing to 34% of total spend.

See footnote 1 below

Difficulty: 
Timing: 12+ months
Illustrative \$: \$11M-\$15M

Findings
<ul style="list-style-type: none"> Special education services are procured directly by the Special Education Division (“SED”) outside of the procurement group and follow different procedures, practices and policies. Special education students each have an Individual Education Program (“IEP”) that defines the care and education requirements for the year. IEPs are tracked in Welligent, which is then used to place students in the appropriate program or non public school. LAUSD has a strong understanding of the individual requirements through Welligent; however, this information is not used to understand the aggregated supplier need. The LAUSD BII (Behavior Intervention Implementation) program includes having a resource monitor the child for behavior and safety through an extended period. LAUSD Management suggested that having a resource monitor the child full time may potentially impede a child from fully acclimating and developing, as well as being more costly to support.

Recommendations
<ul style="list-style-type: none"> Consider placing special education procurement back under the central procurement team with defined support from the SED to ensure that best practices and standard terms are achieved. Consider completing a fully comprehensive strategic sourcing project to understand the full needs of the SED and consolidate suppliers to increase LAUSD’s buying position. Review BII program and evaluate cost and effectiveness to eliminate programs that may not be supporting the objective of the program.

Sources: LAUSD Management FY18 AP data, stakeholder interviews

Sourcing & Procurement Assessment ^[3]	
Best Practices	Opportunity
Comprehensive Strategic Sourcing	Medium
Supplier Consolidation	Medium
Specification Optimization	Low
Service Level Agreements	Medium
Volume Pricing Agreements	Medium
Early Payment Discounts	Medium
Low Cost Country Sourcing	Low
Negotiations & Benchmarking	Medium
Cost Transparency	Low
Reverse Auctions	Low
Consumption Reduction	Medium
Offsets	Constraint
Market Conditions	High
Commodity	Low
Contract Termination	Low

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Note 2: Represents the estimated portion of the current LAUSD budgeted spend in this category that may be relevant for assessment of potential savings opportunities, as determined with LAUSD management.

Note 3: Sourcing & Procurement assessment was performed to determine opportunity potential for each category of spend based on current state, input from LAUSD management, industry benchmarks, and industry leading practice.

Warehouse Finding: A deeper dive into the warehouse pricing model and warehouse operations should be considered in order to determine the value and benefit of maintaining warehouse operations

Observations

- ▶ LAUSD maintains a 370,000 square foot distribution center (the “warehouse”) at Pico Rivera. The warehouse fulfills two primary functions – the delivery of food and related services to support the Food Services program and the delivery of standard supplies, equipment and furniture to the District’s schools and offices.
- ▶ The LAUSD warehouse provides consolidated shipping of school-related products and supplies (including food, school supplies, furniture and mail) to over 700 locations using a staff of ~300 FTEs and a fleet of ~150 trucks (conventional and alternative fuel).
- ▶ The warehouse maintains roughly ~2,500 SKUs and fulfills over 100,000 orders of food, supplies and equipment on an annual basis, of which 60% is food.
- ▶ The warehouse marks up the costs of the supplies when selling back to schools/departments in an effort to recoup a portion of the operational costs (~\$32M). Cost markups range from -11% to 536% of product unit prices with a weighted average of 47% (*See margin markup analysis in Appendix E - Procurement*).
- ▶ In analyzing a sample of 30 of the top 50 items and comparing like items sold by two different large retailers, it was noted that 15 of the items could have been purchased for \$1.8M less, suggesting that the mark up pricing may need to be re-evaluated.
- ▶ Additionally, current practice awards items by line level, which does not follow procurement best practices (e.g., bundling, consolidation) and adds substantial complexity to qualify, negotiate with and manage a larger-than-necessary pool of vendors.
- ▶ Ordering through the warehouse is cumbersome when compared against typical e-commerce sites. A physical catalogue is published on an annual basis with all the products, which are then ordered through SAP by end users. Search functionality is not optimized, resulting in missed item searches (e.g., “vests” will not provide a result but “vest” will).
- ▶ Private sector companies leverage leading full-service vendors and distributors that can deliver a broad set of categories on a daily/weekly basis, eliminating the need for centralized warehouse operations (e.g., major food distributors for food services; office supplies, school supplies and furniture from large multi-product vendors with an online presence and distribution networks).
- ▶ Opportunity exists to contract with large distributors directly to provide both goods and services to reduce overall category costs, as well as organizational complexity. For example: LAUSD could contract with a large online retailer directly and negotiate a fixed profit model. The company would then gain the set profit margin off the purchase and utilize their infrastructure (sourcing, website purchasing, warehousing and distribution) to fulfill orders.
- ▶ Therefore, based on the observations noted above, it is recommended that LAUSD consider a deep-dive assessment of the current warehouse pricing model and overall value of maintaining warehouse operations.

Sources: Warehouse tour; margin mark-up analysis; top 50 SKUs benchmark analysis; stakeholder interviews.

Appendix – Procurement

Appendix A – Procurement

LAUSD AP spend was categorized across a number of different areas

LAUSD 2018 Fiscal Year Procurement Spend - \$3.0 Billion

Category	General Fund (\$M)	Other Funds (\$M)	Grand Total (\$M)	% of Total	Cum. %
Insurance	\$11	\$338	\$349	12%	12%
Benefits	\$125	\$363	\$488	16%	28%
Construction	\$17	\$380	\$397	13%	41%
Charter Schools	\$297	\$31	\$327	11%	52%
Education Services	\$261	\$2	\$263	9%	61%
Facilities	\$242	\$19	\$261	9%	70%
Professional Services	\$104	\$87	\$191	6%	76%
Textbooks	\$130	\$0	\$130	4%	80%
Food Services	\$14	\$146	\$159	5%	86%
Other Expenses	\$85	\$61	\$147	5%	90%
IT	\$93	\$17	\$110	4%	94%
Transportation	\$95	\$1	\$96	3%	97%
General Education Supplies	\$47	\$3	\$50	2%	99%
Debt Servicing	\$0	\$31	\$31	1%	100%
Grand Total	\$1,521	\$1,479	\$3,000	100%	100%

Source: LAUSD Management - FY18 AP data

Notes:

1. Spend categorized by General Fund vs. other funds.
2. Procurement group worked closely with other cost efficiency workstreams to validate savings opportunities and avoid double counting.
3. Full Kaiser and Health Net spend not present in AP data.

Appendix B – Procurement

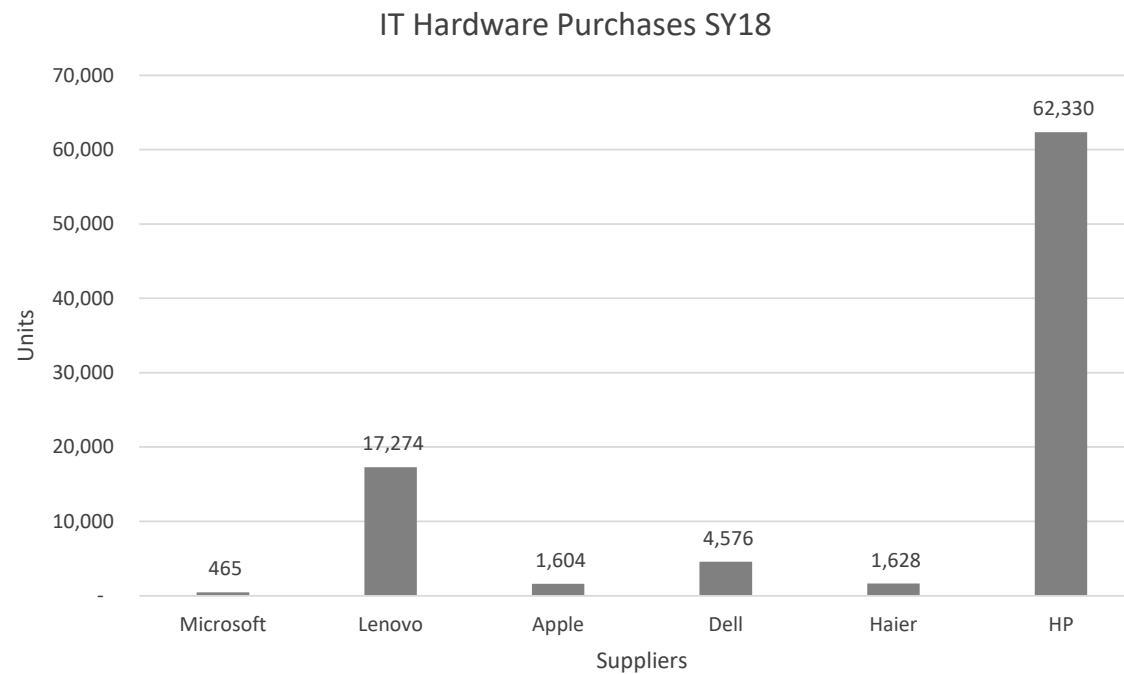
Vendor pareto analysis of select categories of spend

	Technology	Food Services	Professional Services	Transportation	Textbooks	Facilities	General Supplies	Special Education
Total spend, all funds (\$M)	\$110	\$159	\$191	\$96	\$130	\$261	\$50	\$205
Total number of vendors	526	37	~3,000	230	153	~1,500	~1,100	718
Number of vendors accounting for 80% of total spend	10	4	210	5	4	120	74	38

Source: LAUSD Management FY18 AP data

Appendix C – Procurement: Illustrative example of savings potential

Technology: IT hardware spend is fragmented across a number of suppliers; \$3.5M of opportunity may exist in desktop/laptop purchases



Hardware Price Opportunity (\$)			
SY18	Desktop	Laptop	Servers
Average	\$900	\$944	\$9,995
Benchmark	\$545	\$705	\$5,675
Delta	\$355	\$239	\$4,320
Quantity	4,445	8,017	20
Opportunity	\$1.6M	\$1.9M	\$86K
Opportunity of ~\$3.5M			

Methodology:

- Desktop, laptop and server unit prices from the 2017-18 school year ("SY18") were compared against available benchmark data.
- The difference in price was multiplied against the quantity purchased that school year to identify the potential savings opportunity.

Note: Apple computers were removed from this analysis to compare Windows-based systems.

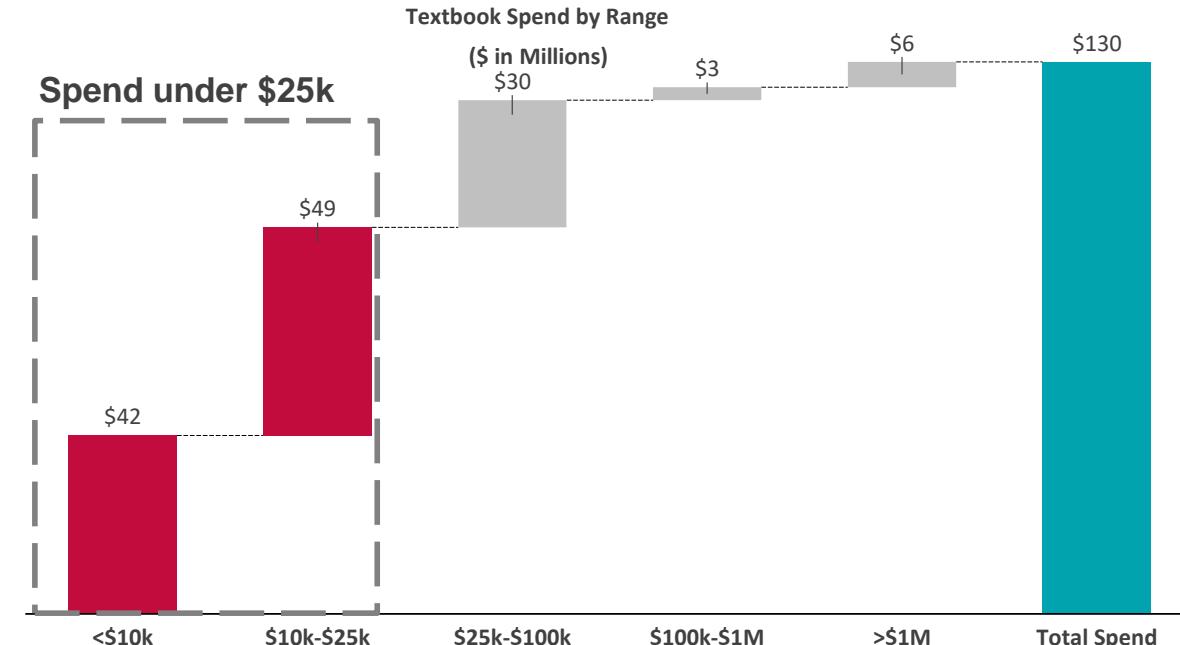
Takeaway

- LAUSD uses a computer solutions distribution company to purchase IT hardware using a variety of manufacturer options. Spend is not consolidated with any one manufacturer, which limits the total discount potential.
- LAUSD should consider contracting with a manufacturer directly to avoid distributor mark ups and limit manufacturer options to improve purchasing power.

Appendix D – Procurement: Illustrative example of savings potential

70% of textbook payments are <\$25K and likely not centralized; opportunity exists to improve pricing through combined purchasing

Range	Textbook Spend	Transaction Count
<\$10K	\$42M	24,998
\$10k-\$25K	\$49M	2,959
\$25k-\$100K	\$30M	834
\$100K-\$1M	\$3M	18
>\$1M	\$6M	2
Grand Total	\$130M	28,811



Sources: LAUSD Management FY18 AP data; stakeholder interviews

Takeaway

- ~\$91M spend is likely not centralized. AP spend data shows many small orders for the same products from different schools; opportunity may exist to achieve volume pricing by centrally procuring orders.
- Additional opportunity to reduce pricing may be attained by combining orders with other districts and reducing the load on vendors by limiting the number of production runs for the same textbooks.

Appendix E – Procurement

General Supplies: Warehouse Margin Mark up Analysis. The warehouse marks up items an average 47% to offset operational costs

Category	Item	Total PO Amount	Markup %	Markup \$
A Top 10	PAPER BOND 8.5X11" WHITE 20# 10/CASE	\$1,787,861	34%	\$609,732
	BAGS TRASH LINER BLK 44 GAL 125/CS	\$1,463,594	52%	\$758,289
	PAPER TOILET SINGLEFOLD 250/PK 36 PK/CS	\$1,447,677	68%	\$991,226
	TOWEL PAPER SINGLEFOLD 250/BALE	\$1,148,505	65%	\$741,447
	FLOOR FINISH, ACRYLIC COPOLYMER, 5 GAL	\$962,789	36%	\$345,463
	FLOOR FINISH SPORT FLOOR 5 GAL CAN	\$631,682	23%	\$142,870
	SEALER GYM/CLASSROOM WOOD FLOORS 1GAL/CN	\$358,736	33%	\$119,809
	PAPER TOILET TISSUE ROLL TWO-PLY	\$353,607	40%	\$142,360
	RADIO TWO-WAY WALKIE-TALKIE PORTABLE	\$352,083	26%	\$92,311
	TISSUES CLEAN/FACIAL 60/CSE	\$349,232	39%	\$137,224
B Top 10	PAPER BOND FLUORESCENT PURPL 8.5X11 24#	\$45,096	68%	\$30,683
	PAPER CONSTRUCTION ORANGE 18X24" 50/PK	\$20,291	22%	\$4,495
	PEN, GEL, RETRACT, GRIP, MED, 14/PK ASST	\$19,871	15%	\$2,952
	WORDBOOK BEGINNING CURSIVE WRITING GD 3	\$18,872	32%	\$6,113
	PAPER BOND RECYCLED, 8-1/2"X11" 20LBS, 9	\$17,463	34%	\$5,887
	DIVIDERS, CLEAR LABEL, W/5 WHITE TABS/SE	\$17,437	41%	\$7,186
	TONER CART, LEXMARK, MS31X/41X/51X BLACK	\$16,705	62%	\$10,353
	PLATES PAPER 8" ROUND UNCOATED 410/CS	\$16,101	13%	\$2,150
	PAPER CUTTER 18" SAFETY	\$15,734	61%	\$9,561
	CABINET FILING 4 DR LETTER W/LOC BLACK	\$15,619	23%	\$3,656
C Top 10	EMERGENCY FIRST AID 400 STUDENTS "B"	\$34,781	24%	\$8,438
	TABLE ACT 30X60" GRAY NEBULA/BLACK	\$22,652	10%	\$2,174
	CHAIR 18" VIRCO ZUMA NAVY	\$17,617	27%	\$4,768
	PAPER BOND 8-1/2 X11" GRAY 500/RM	\$7,150	34%	\$2,430
	2018 CHAIR 18" BLACK BLK/CHROME FELT GL	\$6,894	22%	\$1,495
	ERASER, DRY ERASE, JUMBO	\$5,352	8%	\$418
	TAMPON, SANITARY, ¾" X5" 500/CASE	\$5,081	24%	\$1,198
	BOX STORAGE CRAYON 2" DEEP CORRUGATED	\$4,764	39%	\$1,878
	PAPER BOND MP PINK LEGAL 20# 8-1/2X14	\$4,701	33%	\$1,569
	WORDBOOK "IMPROVING CURSIVE WRITING" BOO	\$4,676	60%	\$2,814
TOTAL of Top 10 A, B and C items		\$9,172,624	47%	\$4,190,948

Sources: LAUSD Management FY18 PO data; stakeholder interviews

Markup Range	# of Unique Products	Markup \$
0% - 49%	1,605	\$5.6M
50% - 99%	494	\$5.1M
100%+	145	\$2.2M
Total	2,244	\$12.9M

Category	# of Unique Products	Markup \$
A	381	\$5.6M
B	701	\$5.1M
C	1,162	\$2.2M
Total	2,244	\$12.9M

Observation

- The warehouse marks up roughly \$12.9M (47%) on \$27.8M of spend to offset operational costs. 28% of items are marked up over 50%, with 6% of items being marked up over 100%.

Recommendation

- LAUSD should perform a deeper dive into the mark up pricing and value of maintaining the Pico Rivera warehouse operations.

Note: A, B, and C categories are classified as items making up 80%, 15% and 5% of spend, respectively.

Appendix F – Procurement

Benchmarking 30 of the top 50 items showed better pricing on 15 items through online retailers compared against the warehouse

Product Description	PO Total Amt	PO Qty	Unit Cost	Markup %	Weighted Avg. Price	Lowest Comparable Price	Delta	% Savings	Savings (Loss) Procuring direct from online retailers
PAPER BOND 8.5X11" WHITE 20# 10/CASE	\$1,787,861	71,400	\$23	34%	\$31	\$49	(\$18)	-60%	\$(1,308,303)
BAGS TRASH LINER BLK 44 GAL 125/CS	\$1,463,594	56,050	\$24	52%	\$36	\$28	\$9	24%	\$488,514
TOWEL PAPER SINGLEFOLD250/BALE	\$1,148,505	61,290	\$17	65%	\$28	\$34	(\$6)	-22%	\$(380,851)
FLOOR FINISH, ACRYLIC COPOLYMER, 5 GAL	\$962,789	13,550	\$65	36%	\$88	\$83	\$5	6%	\$71,592
SEALER GYM/CLASSROOM WOOD FLOORS 1GAL/CN	\$358,736	4,775	\$69	33%	\$92	\$45	\$47	51%	\$222,152
RADIO TWO-WAY WALKIE-TALKIE PORTABLE	\$352,083	2,700	\$119	26%	\$150	\$90	\$60	40%	\$163,012
TISSUES CLEAN/FACIAL 60/CSE	\$349,232	9,013	\$35	39%	\$49	\$34	\$15	31%	\$138,384
CHAIR-DESK SIZE 16.5' TO 18" NAVY SANDST	\$324,218	2,260	\$131	34%	\$154	\$183	(\$29)	-19%	\$(64,702)
DISPENSER,TOILET PAPER,SGL FOLD, S STEEL	\$262,800	5,000	\$48	18%	\$55	\$42	\$13	24%	\$64,954
PAPER BOND MP96 BRIGHT 8.5X1120#WHITE	\$234,126	8,400	\$25	14%	\$33	\$31	\$2	7%	\$20,339
DISPENSER LIQ SOAP LATHER CAP APRX 40OZ	\$159,827	6,700	\$22	31%	\$30	\$30	\$0	1%	\$ 1,386
BOOK COMPOSITION WIDE RULED	\$159,257	24,000	\$6	22%	\$15	\$3	\$12	77%	\$286,107
ADHESIVE GLUE STICK NON-TOXIC, WHITE	\$158,018	94,404	\$2	39%	\$3	\$2	\$1	25%	\$80,042
PAPER XEROX WHITE 8.5X11 HI SPEED 10/CSE	\$145,282	5,880	\$23	154%	\$30	\$49	(\$19)	-62%	\$(110,265)
EASEL PAD YELLOW RULED 25X30.5" 2/BX	\$143,542	4,275	\$31	118%	\$42	\$59	(\$17)	-42%	\$(74,405)
CRAYONS STANDARD ASSORTED 16/BOX	\$130,392	312,000	\$0.38	34%	\$1	\$4	(\$4)	-787%	\$(1,229,031)
SOAP, LIQUID FOR DISPENSER W/ ALOE	\$129,908	5,000	\$24	37%	\$34	\$11	\$24	69%	\$117,699
REMOVER, FLOOR FINISH, 4 GAL/CASE	\$127,075	5,000	\$23	32%	\$34	\$97	(\$63)	-189%	\$(317,192)
MARKER DRY-ERASE BROAD LO-ODOR BLK 12/BX	\$97,212	16,824	\$5	45%	\$8	\$10	(\$2)	-26%	\$(34,282)
CLEANER NEUTRAL CONCENTRATE 2 LITERS	\$87,625	2,300	\$35	45%	\$45	\$70	(\$25)	-57%	\$(58,301)
SHARPENER PENCIL ELECTRIC, BLK/GRYNEW	\$85,495	2,100	\$37	50%	\$62	\$18	\$44	70%	\$92,379
PENCIL, PRE-SHARPENED, #2 HB 12/BOX	\$84,677	124,800	\$1	28%	\$1	\$3	(\$2)	-145%	\$(218,095)
MARKER DRY-ERASE BROAD LO-ODOR BLU 12/BX	\$83,908	14,520	\$5	68%	\$8	\$15	(\$7)	-89%	\$(102,768)
DISPENSER PAPER TOWEL-STAIN LESS	\$81,578	1,550	\$48	94%	\$71	\$33	\$38	54%	\$59,161
WATERCOLOR PENCIL SETS, 24-COLOR SETS	\$81,195	22,680	\$3	50%	\$5	\$9	(\$4)	-64%	\$(79,542)
PAPER TOILET TISSUE ROLL 2-PLY1000'	\$80,068	3,900	\$19	48%	\$24	\$22	\$1	6%	\$ 5,482
CALCULATOR TI-84 PLUS CE 10 PACK	\$78,674	60	\$1,197	68%	\$1,362	\$1,358	\$4	0%	\$251
PROTECTOR SHEET 8.5X11" TOP LOAD 100/BX	\$71,886	11,000	\$6	27%	\$10	\$13	(\$3)	-34%	\$(36,491)
GLUE, WHITE NON-TOXIC 1 GALLON BOTTLE	\$64,906	6,668	\$9	14%	\$11	\$15	(\$4)	-34%	\$(25,282)
GLOVES, VINYL, POWDER FREE, LARGE 100/BO	\$63,421	29,000	\$2	62%	\$5	\$6	(\$1)	-32%	\$(42,018)
TOTAL	\$9,357,890								\$1.8M Opportunity

Sources: LAUSD Management FY18 PO data; independent comparative pricing from two separate large online retailers

Takeaway

- Schools may be able to buy many items cheaper online through a much improved purchasing experience.
- Further discounts may likely be available by contracting directly with a large online service provider to negotiate profit margins for items vs. going through a competitive bidding process for individual items. LAUSD should consider contracting with large suppliers directly to improve costs across the portfolio, reduce organizational complexity, and improve customer service and reliability.

Workers' Compensation

Executive Summary

- Less complex
- Moderate
- More complex

Current State	<ul style="list-style-type: none"> ► LAUSD has a fully self-insured workers' compensation ("WC") program that totaled \$111.5M in direct costs during FY17. ► The workers' compensation program is centrally managed within the District by the integrated disability management unit ("IDM"). ► The integrated disability management unit utilizes a third party claims administrator ("TPA") to manage workers' compensation claims. ► LAUSD pays ~\$10.3M annually to TPA for claims administrator services. 			
Finding	Recommendation	Difficulty ^[1]	Timing ^[1]	Illustrative Impact ^[1]
1. The file review identified approximately 17% in claims financial leakage, which is higher than industry leading practice. <i>"Financial leakage" here can be defined as the additional amount paid, above what might have been paid, if leading practices had been applied</i>	Enhance internal claim management and oversight capabilities <ul style="list-style-type: none"> • Increase the staffing levels, technical knowledge and experience within the IDM unit. • Enhance claims practices for the TPA and LAUSD internal resources to follow and establish formal governance and quality assurance procedures. 	●	1-3 years	\$7-10M
2. The District's current staffing levels and claims management practices may be limiting more effective management of the program given the size and complexity.	Implement cost reductions strategies associated with telephonic case management and defense attorney utilization.	●	3 months	\$1M
3. Fees paid to TPA are higher than typically seen in industry leading practice and contractual terms with TPA do not have the same level of quality requirements typically seen in industry leading practice.	Consider renegotiating the fee agreement with TPA to pursue a reduction in fees along with additional performance assurances (e.g. certain fees will be at risk depending on the outcome based performance metrics).	●	3 months	\$1-3M
4. Responsibility for WC management rests solely within the IDM unit, therefore other departments are not directly incentivized to assist in WC cost management.	Implement a formal WC cost allocation program throughout the District in conjunction with an updated Return to Work ("RTW") program.	●	1-3 years	\$14-24M
			Total	\$23M-\$38M

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Finding #1: Claim management execution is inconsistent with industry leading practice

Overview

A review was conducted of 75 claim files to assess the level of claim management execution against industry leading practices. Where gaps between current and leading practices were identified (i.e. "claim leakage"), the financial impact was quantified. The leakage observed was 17%, which is higher than the industry average.

Entity Type	Leakage range*
Public Entities	8 - 10%
Mid-Size & Large Corporates	5 - 7%

See footnote 1 below

Difficulty:



Timing: 1-3 years

Potential \$: \$7-10M

File Review Sample Parameters

- All claims reviewed included Indemnity (i.e. lost time claims paid).
- 65 claims were closed (all within the last 12 months).
- 10 claims reviewed were still open at the time of review.
- Accident years included 2013-2017 with 73% of claims from 2016 and 2017.
- All claims reviewed had paid amounts in excess of \$10,000.

Leakage Summary

The most significant leakage was allocated to indemnity costs which indicates a strong focus should be placed on reducing the frequency and duration of lost time claims.

Payment Type	Paid Amount	Leakage %	Leakage Amount
Indemnity	\$3,580,394	28%	\$988,313
Medical	\$4,698,158	8%	\$363,888
Expense	\$930,805	20%	\$181,763
Total	\$9,209,356	17%	\$1,533,964

Sources: LAUSD Management information and *industry data*

Results by Claim Handling Phase

Leakage was identified across multiple phases of the claim management lifecycle with claim investigation being the top driver of leakage. While supervision was not a direct driver of leakage, improved TPA supervisory performance could have impacted the results across all phases.

Phase	Claim Leakage				
	Indemnity	Medical	Expense	Total	% of Total
Investigation	\$440,259	\$146,251	\$32,725	\$619,235	41%
Resolution	\$208,182	\$51,534	\$72,787	\$332,503	21%
Disability Management	\$157,238	\$27,721	\$0	\$184,959	12%
Medical Management	\$99,195	\$57,206	\$8,701	\$165,101	11%
Litigation	\$27,500	\$2,437	\$61,371	\$91,308	6%
Supervision	\$8,077	\$43,378	\$4,782	\$56,237	4%
Compensability	\$9,461	\$35,361	\$1,397	\$46,219	3%
Subrogation	\$38,402	\$0	\$0	\$38,402	2%
Grand totals	\$988,314	\$363,888	\$181,763	\$1,533,964	100%

See appendix for additional descriptions and key drivers of leakage

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Finding #2: Internal staffing levels and claims management practices are inconsistent with industry practices for a WC program of this size and complexity

Overview

The IDM unit has undertaken numerous efforts to improve WC results. Despite challenges associated with staffing and limited technical claims experience at the specialist level, the IDM unit is currently utilizing many practices that are consistent with industry peers and leading practice. These include meeting regularly with the TPA to conduct in-person claim reviews, ongoing communication and engagement with other department heads including employee health and safety, and executing special projects geared towards reducing future WC liabilities, such as the accelerated closure project.

See footnote 1 below

Difficulty:



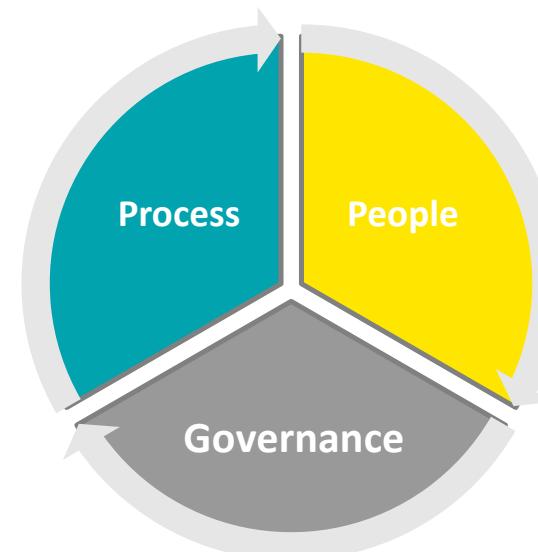
Timing: 3 months

Potential \$: \$1M

LAUSD is facing both internal and external challenges associated with running an effective WC program. Internally, there may be a lack of financial motivation for injured workers to return to work based on current salary continuation policies and the ability to use illness time to compensate for lost income. Externally, California is one of the more complex jurisdictions with a high propensity for attorney representation and litigation. These challenges along with the significant cost and impact that WC has on student achievement, heightens the need for rigorous program management.

Based on the assessment, four opportunities were identified to improve how the IDM department can impact the overall WC program across three dimensions: people, process and governance.

Sources: LAUSD Management information, stakeholder interviews, benchmark data



Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Finding #2: Internal staffing levels and claims management practices are inconsistent with industry practices for a WC program of this size and complexity

1. Insufficient staffing and technical skills to manage the program

While the IDM unit is overseen by a highly technical and qualified director, the unit itself may not have the necessary technical skills and resources to properly manage the program more effectively. Throughout the file review, numerous instances were identified where initial and ongoing investigations lacked proactive claims handling and rigorous medical management. It is an industry leading practice for loss sensitive organizations like LAUSD to utilize technical claims specialists to perform ongoing oversight of the individual claim strategies and practices.

Recommendations

- ▶ Workloads of the existing staff are higher than industry average. Currently, the IDM unit has four WC claim specialists with an average open workload of 110 active Temporary Total Disability ("TTD") claims. Based on the active claim inventory and complexity of the program and jurisdiction, an additional two claim specialists should be recruited to help in overseeing all newly reported claims and in communicating trends to the District. This is essential in not only limiting the impact of WC to the District, but also in lessening the impact that WC absence may have on students.
- ▶ The current team of claim specialists may not have the technical knowledge required to perform rigorous oversight of individual claims and vendors. Consider requiring that all new staff have, at a minimum, 2 - 4 years of technical WC claim handling experience. For existing staff, provide formal technical claim management training on an ongoing basis and continue the practice of allowing attendance of WC specialists to the file reviews with the TPA.

Sources: LAUSD Management information, stakeholder interviews, benchmark data

Finding #2: Internal staffing levels and claims management practices are inconsistent with industry practices for a WC program of this size and complexity

2. Lack of rigorous LAUSD specific claim management guidelines

LAUSD currently has special service level instructions that the TPA is required to follow. However, they are generally broad and exception based. Programs the size and complexity of LAUSD typically establish more detailed claim management guidelines which include specific requirements for all claim management activities from initial assignment to claim closure.

Recommendations

- ▶ Develop detailed claim management requirements for the TPA to utilize on all LAUSD claims that mitigate the leakage drivers identified in the file review
- ▶ Short-term cost savings opportunities related to claims guidelines are as follows:
 - Telephonic Case Manager Fees: In F17, the total TCM fee paid by LAUSD was \$1.1 million. Since then LAUSD eliminated the use of prior broad TCM triggers and is now leveraging the TPA's analytics program which helps identify when a TCM is needed. In the file review, the use of the TCM's was excessive as adjusters were assigning TCM's to manage basic disability and medical issues. In addition to leveraging the TPA's analytical model, LAUSD should develop a detailed set of triggers and a formal approval process for the TPA to utilize a TCM beyond 30 days.
 - Defense Counsel Fees: In FY17, Defense counsel fees were \$12.9 million and the file review identified numerous instances where the defense attorney was performing claim adjusting work such as evaluating claims for settlement and conducting negotiations on low to moderate complexity claims. While defense costs are trending down this year, additional focus should be placed on shifting core claims adjusting work from defense attorneys back to the TPA claims adjuster.

3. Lack of ongoing communication between LAUSD staff and disabled employees

Communication between the employer and injured worker is a critical element to facilitating timely and effective return to work. While the IDM department sends get well cards to workers who are out of work, there is no formal requirement for the claim specialists or immediate supervisors to make contact with injured workers. Of the \$3.5M in indemnity dollars paid, 28% was identified as leakage, which was largely driven by injured workers who alleged soft tissue injuries and remained out of work longer than anticipated. A focus needs to be placed on maintaining an open dialogue with injured workers to reduce the frequency and duration of lost time claims.

Recommendations

- ▶ Establish a requirement that Supervisors or Principals contact injured workers on a regular basis while out of work. The communication should be documented and provided to the Integrated Disability Management team so it can be incorporated into the claim strategy.
- ▶ In addition to the immediate supervisor communication, establish formal ongoing injured worker communication requirements for the WC claim specialists. All communication results should be documented.

Finding #2: Internal staffing levels and claims management practices are inconsistent with industry practices for a WC program of this size and complexity

4. Lack of rigorous and outcome focused quality assurance practices

There is currently no formal review of the TPA or other key claim vendors. Defense counsel performance is also measured via claim adjuster surveys and compliance with billing standards and TPA's performance is not formally assessed. It is a leading practice for a program similar to LAUSD to conduct annual reviews of all key vendor partners. Once the additional and trained staff is in place, LAUSD should establish additional oversight and quality assurance practices for key WC claim vendors.

Recommendations

- ▶ Enhance LAUSD's level of involvement in the claims management process and establish formal claim oversight practices and procedures. Consider requiring WC claims specialist to review active claims under their assignment at minimum every 90 days to evaluate the current claims status and claims resolution plan. LAUSD should develop formal requirements for additional review and oversight based on severity indicators such as lost time, surgery, modified duty availability, attorney representation and litigation.
- ▶ Conduct a formal retrospective audit of TPA's claims management practices on a bi-annual basis. Consider utilizing the audit results to assess TPA's performance and incentives in addition to identifying opportunities for continuous improvement. This audit should address compliance with the previously defined LAUSD claim management guidelines.
- ▶ Conduct formal defense attorney file audits focused on claim outcomes rather than billing compliance and cycle times as those are not effective measures of the quality of defense counsel's performance. TPA currently conducts legal surveys on the responsiveness of the attorneys and those surveys are completed by TPA adjusters. However, legal surveys alone are not an effective measurement of legal performance and should be supplemented with a formal review of claim outcomes via a formal audit of litigation performance.
- ▶ Conduct a formal review of the providers within the Medical Provider Network (MPN) to assess whether the ratings provided to them via TPA's quality practices are aligned with claim outcomes. TPA reports out on penetration for providers rated as 3 - 5 stars. However, it remains unclear how many providers treating LAUSD workers are 4 or 5 star rated or how these ratings are determined. Medical management was one of the top drivers of claim leakage in the file review and verifying the quality of medical providers within the MPN would further assist in limiting leakage.

Finding #3: TPA fees are higher than industry peers and the TPA contractual quality requirements lack the appropriate level of oversight and rigor

Overview

LAUSD utilizes a third party administrator ("TPA") to perform all claims administration services. The current agreement includes a cost plus pricing plan which includes a claims administration fee. Typically across the industry, indemnity claims are priced higher than medical only claims given the level of severity and effort associated with properly managing exposure. Currently LAUSD averages a 62:38 split for medical only vs. indemnity ratio. The industry average is a 75:25 ratio. The goal for LAUSD should be to get to a 70:30 rate by enhancing internal claims management practices and implementation of a cost allocation program. This will reduce the indemnity claim frequency and downstream severity for the remaining indemnity claims.

See footnote 1 below

Difficulty:



Timing: 3 months

Potential \$: \$1-3M

The current claims administration fee charged by the TPA for claim handling is \$10.3 million. A review of the fee proposal provided by the TPA to LAUSD to calculate the claims administration fee suggests opportunity related to pricing exists. Most notably, the current contract was priced with separate costs per dedicated resource, which may not incentivize the TPA to assist in preventing or resolving claims expeditiously. The model supports a structure where the greater the amount of WC claims received, the more resources would be needed. Negotiating a contract for a WC program the size and complexity of LAUSD by utilizing a standard fee for anticipated WC claims could provide more objectivity in anticipated resource needs while allowing for flexibility during times of greater or lower WC claim volume.

Calculation

If you apply a conservative benchmark cost estimate of \$250 per medical only claim and \$2,500 per indemnity claim against the 2016 inventory numbers, the total cost for claims would be \$4.6 million. In a cost plus plan, there would be additional fees such as system and account management charges. However, the gap between the conservative estimate and the actual claims administration fee is significant.

	Historical Number of Claims Filed						
	2013	2014	2015	2016	2017	Total	Ratio
Indemnity	1,766	1,628	1,569	1,560	1,433	7,956	37.7%
Med Only	2,560	2,649	2,518	2,707	2,696	13,130	62.3%
Total	4,326	4,277	4,087	4,267	4,129	21,086	100.0%

- Utilizing a conservative benchmark of \$250 per medical only claim indicates \$677k of the \$10.2M TPA fee related to medical only claim management ($2,707 \times \$250$).
- This implies that cost per Indemnity claim would be \$6,136 which is more than two times higher than the conservative cost benchmark of \$2,500. ($\$9.6M / 1,560$ claims).

Recommendation

It is recommended that LAUSD consider renegotiating their contract with their current TPA, and if necessary consider issuing an RFP to evaluate alternate providers and pricing. LAUSD should also work with TPAs to enhance the quality requirements in the contract and develop outcome based metrics and quality assurance practices to be used to assess performance. LAUSD should also require that TPAs provide them with all copies of the subcontracts they have in place with their vendors in order for LAUSD to confirm those services are charged back with no markup.

Sources: LAUSD Management information, stakeholder interviews, benchmark data

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Finding #4: Lack of organizational focus and accountability of the workers' compensation program

Overview

Worker's compensation represents a significant cost to the organization through direct costs (claims payments and administration fees) and the downstream impact that employee absence has on operational efficiencies and student achievement. Organizations with leading practice WC programs utilize a holistic approach which encourages active engagement in WC mitigation and management throughout the organization. The two most common ways organizations engage management across departments and functions to participate in claims management is through 1. cost allocation and 2. formal return to work programs ("RTW").

See footnote 1 below

Difficulty:



Timing: 1-3 years

Potential \$: \$14-24M

1. Cost Allocation:

LAUSD currently does not allocate WC costs or performance measures to individual field locations or schools. The file review identified numerous claims with extended periods of disability on minor soft tissue injuries and a lack of effective utilization of modified duty. While technical claims oversight and management should be conducted by the centralized IDM department, it is well known and accepted in the industry that initial and ongoing communication with injured workers by their local supervisor increases the likelihood for modified or regular duty return to work. Other behaviors that were not observed and should be incentivized through cost allocation include:

- ▶ Consistently provide meaningful and modified duty RTW options to injured workers.
- ▶ Assist with initial claim investigations by securing photos of the scene or providing statements on suspicious claims.
- ▶ Report new claims timely and accurately.

Key design elements of a leading practice cost allocation include:

- ▶ Utilization of KPI's that are directly linked to post claims management activities.
- ▶ Costs or surcharges applied to claims based on frequency and severity trends.
- ▶ Allocation linked to claim financials such as total severity and lost time status.

Successful implementation requires a significant shift in culture. To obtain buy in, the program needs to be communicated with complete transparency. A baseline should be established based on historical results prior to establishing goals for each field operation/school. As this would be new to LAUSD, leaders throughout the organization will need to be trained on the program and practices.

2. Return to Work:

LAUSD has a current return to work/ stay at work program which should be updated and re-introduced throughout the organization as part of the implementation of the aforementioned cost allocation program. It is important to utilize a RTW program that is closely aligned with the behaviors being incentivized through cost allocation. Formal training and reintroduction of the program should also be completed.

Sources: LAUSD Management information, stakeholder interviews, benchmark data

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Appendix – Workers' Comp

Appendix A – Workers' Compensation

File Review Results- Definitions and Top Drivers by Phase

Below are the definitions, associated leakage amounts, and top drivers of leakage scored throughout the claim file review:

Phase	Definition	Leakage Amount Identified	Top Drivers of Leakage
Investigation	<p>Thorough initial and ongoing investigation of the claim including but not limited to;</p> <ul style="list-style-type: none"> • Obtain all information needed to complete a compensability analysis and determine the mechanism of injury and potential severity. • Identify additional factors that may impact return to work. • Continuously evaluate indicators of symptom magnification and malingering. 	\$619,000	<ul style="list-style-type: none"> • Lack of rigorous investigation, especially with habitual claimants. • Need to obtain more details surrounding loss facts, pre-existing conditions and how they impact treatment plans. • No independent analysis from the TPA adjusters into the overall exposure, treatment plan or strategy.
Resolution	<ul style="list-style-type: none"> • Ongoing evaluation of the claim facts and most probable outcome to determine the most cost effective resolution strategy. • Assessment of the exposure and development of a settlement strategy and range. 	\$332,000	<ul style="list-style-type: none"> • Settlement ranges not used. • Over-reliance on defense counsel's analysis. • Lack of proactivity into pursuing a settlement based on the claim facts.
Disability Management	<ul style="list-style-type: none"> • Ongoing analysis of the claimant's disability and pursuit of work restrictions based on the claimant's recovery. • Coordination between employer, provider and claimant for modified and regular duty return to work options. 	\$185,000	<ul style="list-style-type: none"> • QME's not explored timely. • Modified duty options not explored when available. • Lack of proactive follow-up to confirm the level of disability and how it would impact return to work.
Medical Management	<ul style="list-style-type: none"> • Analysis and ongoing management of prescribed treatment against guidelines and claim facts. • Review of medical risk factors and identification of non-compliance with treatment plans. 	\$165,000	<ul style="list-style-type: none"> • Lack of proactive follow-up to ensure treatment was obtained. • Medical records not obtained or evaluated timely in order to confirm treatment plans and duration.
Litigation	<ul style="list-style-type: none"> • Oversight and coordination of all claim litigation including the development of a litigation strategy, assignment of counsel, decisions to litigate vs. settle and management of all litigation expenses. 	\$91,000	<ul style="list-style-type: none"> • Failure to develop an action plan with defense counsel that is aligned with the facts of the claim. • Litigation costs and likelihood of success not properly factored into the resolution plan.
Supervision	<ul style="list-style-type: none"> • Active monitoring of the claim progression with specific feedback provided to the adjuster on the effectiveness of the current case strategy, recommendations for additional activity and commentary on case reserves. 	\$56,000	<ul style="list-style-type: none"> • Lack of impactful coaching or direction that would have moved the claim closer to resolution.
Compensability	<ul style="list-style-type: none"> • Analysis of the claim investigation results to determine if the claim is compensable and what body parts were injured as well as the potential severity of the injury. 	\$46,000	<ul style="list-style-type: none"> • Accepting injuries without sufficient details into how the loss occurred or how it resulted in the injury.

Appendix B – Workers' Compensation

Workload Analysis on Third Party Administrator ("TPA")

The TPA has a dedicated claims team that manages the LAUSD WC program. As part of this assessment, the TPA account manager and operations director in charge of the LAUSD account were interviewed. The dedicated claims team primarily consists of 34 indemnity adjusters, 2 medical only specialists, 1 full time complex adjuster, and 2 complex specialists with partial caseloads.

Below is a breakdown of the new notices received and the average caseload per dedicated adjuster:

New Notices			
Fiscal Year	2015	2016	2017
Medical Only	1,675	1,505	1,511
Indemnity	2,671	2,834	2,849
Total	4,346	4,339	4,360



Average Caseloads	
Adjusters	Caseload
Medical Only	72
Indemnity	123
Complex	40*

* One complex adjuster has a full workload which is consistent with industry practice. However there are two (2) adjusters with partial caseloads in the 20's.

- ▶ The contract with the TPA requires a caseload under 125 for indemnity adjusters, which is an industry leading practice as utilizing lower caseloads enables more proactive and rigorous claims management.
- ▶ As previously noted, the files reviewed possessed excessive leakage and did not demonstrate proactive claims management.
- ▶ Over time, there may be an opportunity to reduce the number of adjusters allocated to the LAUSD account by the TPA as new notice volumes are well below industry averages. However, LAUSD should focus initially on raising expectations for the TPA for more rigorous claim management rather than reducing TPA headcount.
 - ▶ On an annual basis, each indemnity adjuster receives approximately 1 new claim every 3 days which is below the industry average of 1 per day.
 - ▶ The TPA utilizes two complex claims adjusters to triage and assign claims. There may be an opportunity to leverage basic business rules for triage and assignment rather than high cost complex claims adjusters.

Appendix C – Workers' Compensation

Overall Costs to LAUSD

- Workers' compensation ("WC") direct costs totaled \$111,454,574 in FY17
- WC costs are broken down into claims paid and third party administrator fees
- These costs are used as the baseline for which to forecast savings based on future state recommendations

Claims Paid:

Fiscal Year	*Number of employees at LAUSD	Number of new claims filed	Indemnity Paid	Medical Paid	Expense Paid	Total Paid
2017	75,729	4,360	\$38,296,005	\$43,464,401	\$19,435,155	\$101,195,561
2016	75,502	4,339	\$39,330,275	\$44,210,744	\$18,988,976	\$102,529,996
2015	75,788	4,346	\$35,905,598	\$43,743,156	\$20,682,996	\$100,331,750

Third Party Administrator Fees:

Vendor	Yearly fee as per the contract
TPA	\$10,259,013

Summary of annual workers' compensation direct costs:

Fiscal Year	Claims Paid	TPA Costs	Total Cost
2017	\$101,195,561	\$10,259,013	\$111,454,574
2016	\$102,529,996	\$10,259,013	\$112,789,009
2015	\$100,331,750	\$10,259,013	\$110,590,763

Breakdown of WC claim costs:

Indemnity Payments	2017	Medical Payments	2017	Expense Payments	2017
Permanent Partial Disability	\$19,620,023	Medical Doctors	\$24,991,209	Legal Fees	\$12,885,083
Temporary Total Disability	\$15,188,841	Medical Settlement	\$5,640,855	Peer Review	\$3,087,119
Settlements	\$3,089,183	IME's	\$6,472,295	Utilization Reviews	\$1,409,864
Vocational Rehabilitation	\$397,958	Physical Therapy	\$3,866,513	TCM	\$1,078,337
Total	\$38,296,005	Pharmacy	\$2,493,529	Surveillance	\$974,752
		Total	\$43,464,401	Total	\$19,435,155

Sources: LAUSD Management information, *The number of employees was calculated by using the number of W2's filed by LAUSD with the state of California

Appendix D – Workers' Compensation

Short and Long Term Claim Cost Savings

Overall Claims Costs

The cost savings potential was analyzed using an aggregate and individual loss year analysis to quantify potential savings. The loss year analysis forecasts savings based on industry indemnity to medical only ratios and benchmarks. The aggregate claims paid analysis is based on the leakage assessment and annual claims payments.

Loss Year Performance Analysis

LAUSD averages a 62% (medical only) vs 38% (indemnity) ratio. The industry average is 75% vs 25% and LAUSD should look to get to a 70:30 rate by enhancing internal claims management practices and the implementation of an integrated cost allocation and return to work program. Below is the 2016 claims reported data from the TPA used as a baseline for the analysis:

Claim Type	Claims reported in 2016	Frequency	*5 yr. average cost per claim
Indemnity	1,560	37.7%	\$32,680
Medical Only	2,707	62.3%	\$1,925
Totals	4,267	100%	\$34,605

Scenario 1: Reducing the indemnity ratio from 38% to 30% to reach the 70:30 ratio

Analysis:

- ▶ 2987 Med Only claims X \$1,925 = \$5.75M
- ▶ 1280 Indemnity claims X \$32,680 = \$41.83M
- ▶ Total Spend = \$47.58M
- ▶ Compared to average 5 year total claim spend (\$52.46M) which represents savings of nearly **\$5M per year**.

Scenario 2 : Reducing medical only from 38% to 25% to reach the 75:25 ratio

Analysis:

- ▶ 3200 Med Only claims X \$1,925 = \$6.16M
- ▶ 1067 Indemnity claims X \$32,680 = \$35.05M
- ▶ Total Spend = \$41.2M
- ▶ Compared to average 5 year total claim spend (\$52.46M) this represents savings of over **\$11M per year**.

Note: Improvement in claim practices may result in acceleration of claim payments, therefore when quantifying the impact of changes, LAUSD should include an actuarial assessment of total future liabilities

Sources: LAUSD Management information, *Average incurred over past 5 loss years based on the TPA "Stewardship Report" 2017

Aggregate Claims Paid Analysis

The file review identified 17% leakage across the sample which included claims from the 2013 – 2017 loss years. Organizations similar to LAUSD that have enhanced their claims management and oversight practices could experience a 5-7% reduction in claim leakage over a three year period, which would align LAUSD closer to the industry average of 8-10%. Leakage can be reduced further through continuous improvement with incremental reductions beyond 3 years.

Calculation

- ▶ \$101M average claim cost spend x 5 - 7% in leakage reduction represents **\$5M to \$7M in annual savings**.

After the internal claims practices have been enhanced, there is potential for additional cost savings by implementing an integrated cost allocation and return to work program. The savings potential of cost allocation varies as some organizations have experienced up to a 25% reduction in claim costs. Based on the current state and other cost reduction initiatives recommended, LAUSD could anticipate an additional 15 - 25% reduction in claim costs on top of the prior leakage reduction.

Calculation

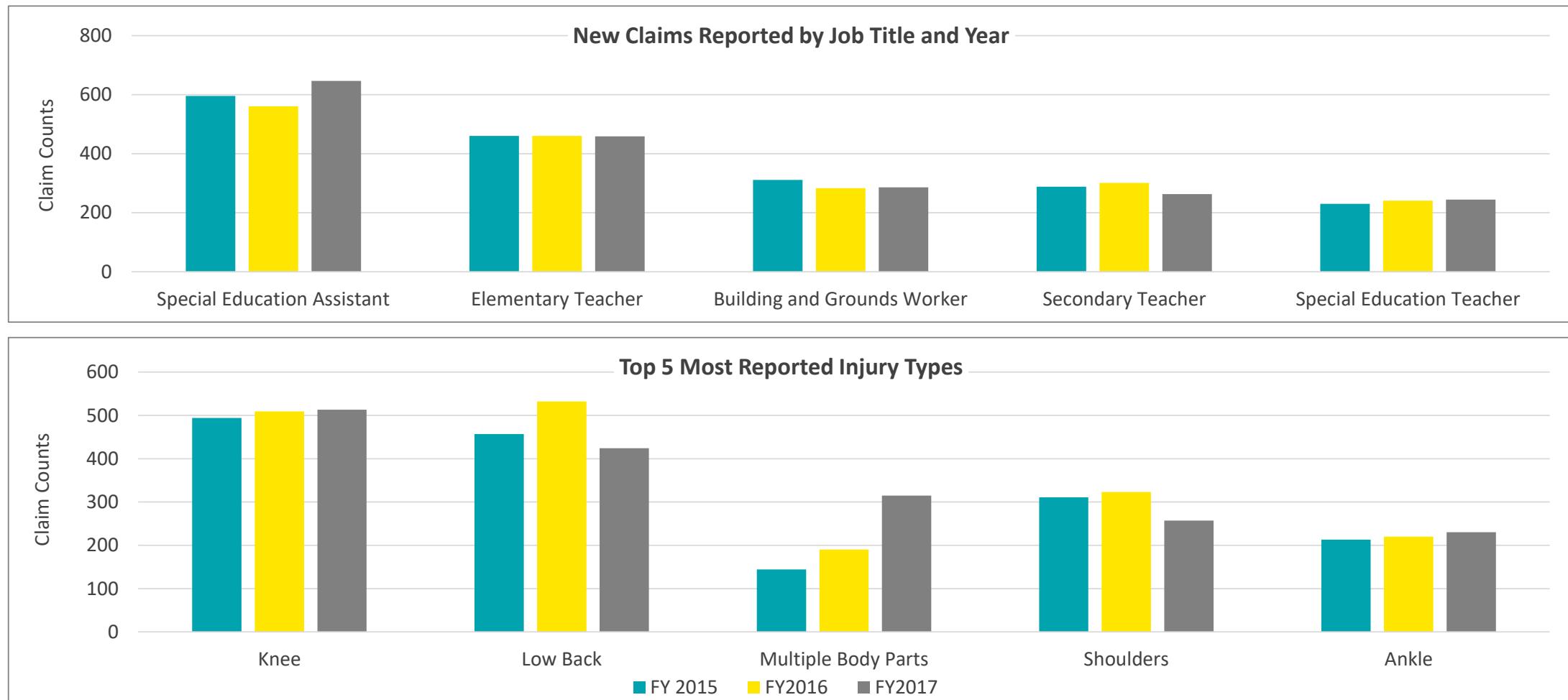
- ▶ Future annual spend of \$95M (6% reduction off base) x 15% represents **\$ 14.25M in annual savings**.

- ▶ The \$95M represents the future annual claim costs once leakage is reduced closer to industry peers.
- ▶ Moving forward, LAUSD should utilize the average cost per claim(s) to measure year over year trends and monitor the performance of the WC program, which is consistent with industry leading practice.

Fiscal Year	Total Paid
2017	\$101,195,561
2016	\$102,529,996
2015	\$100,331,750
Avg.	\$101,352,436

Appendix E – Workers' Compensation

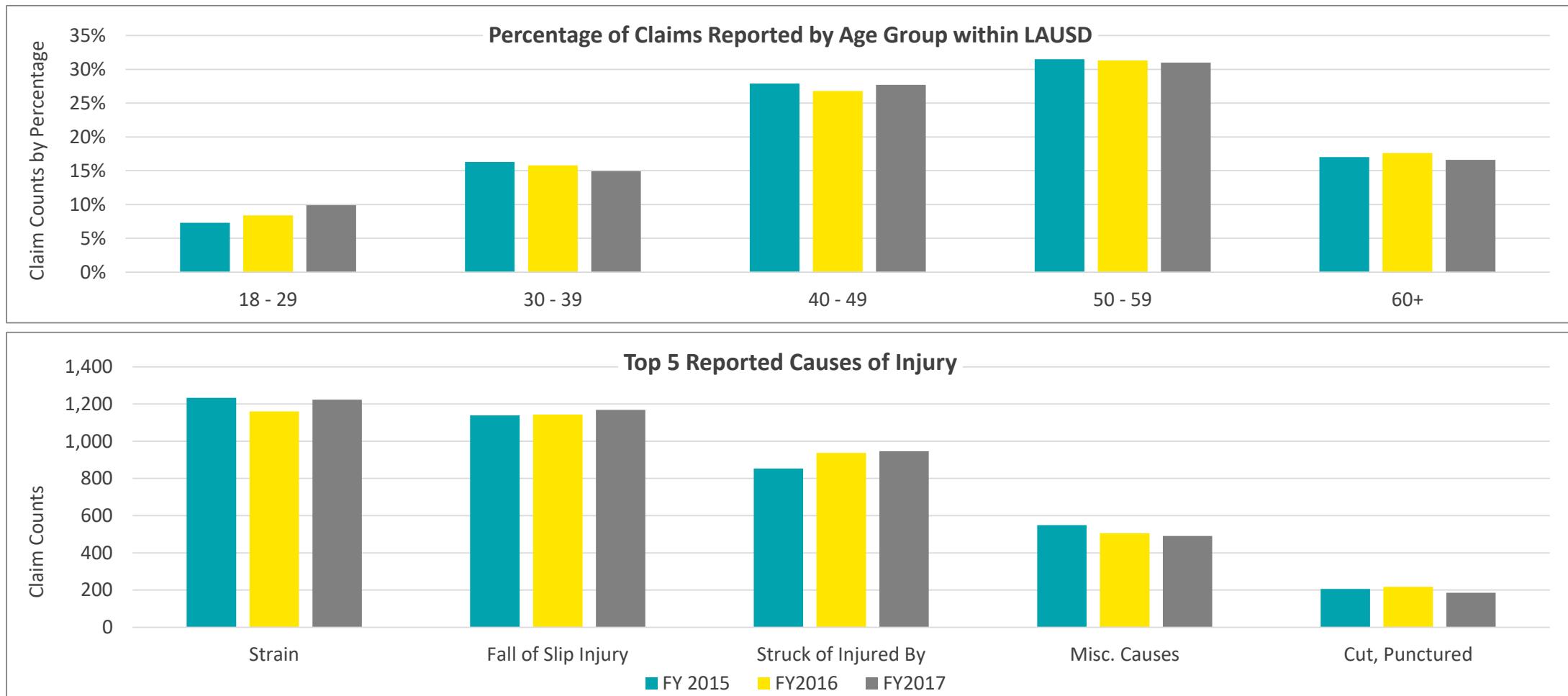
Claims reporting data



Sources: TPA Stewardship Report 2017

Appendix E – Workers' Compensation

Claims reporting data (continued)



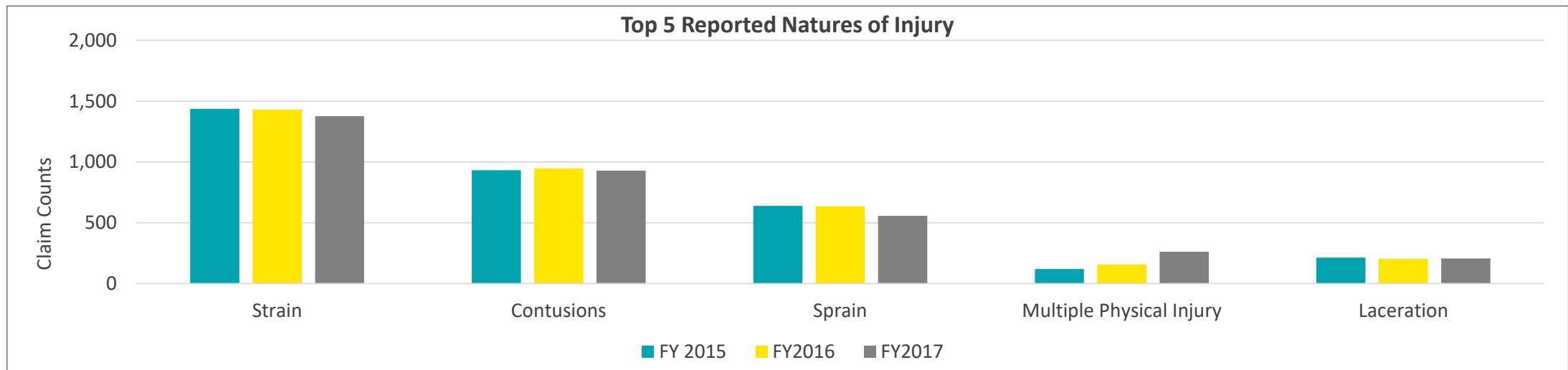
Sources: TPA Stewardship Report 2017

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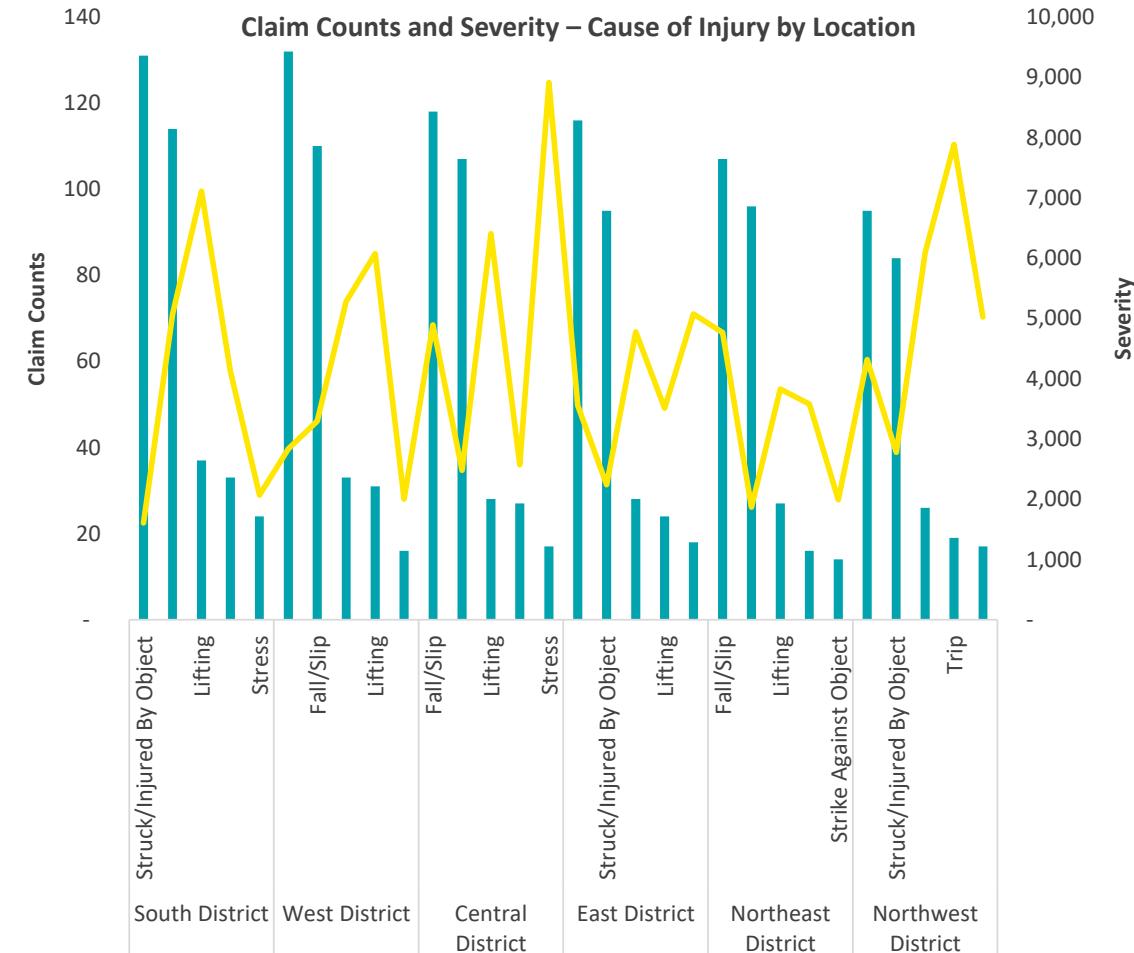
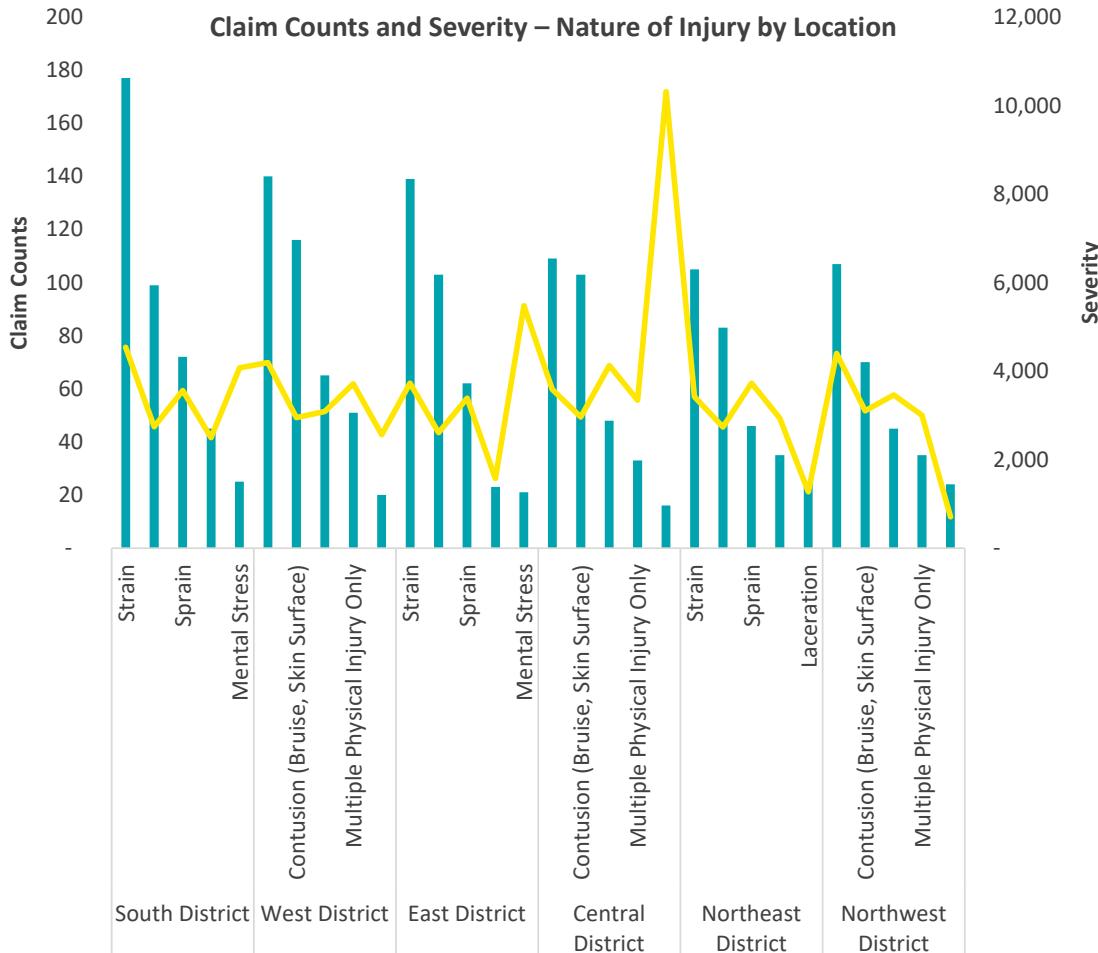
LAUSD - 403 - PRA

Appendix E – Workers' Compensation

Claims reporting data (continued)



Appendix E – Workers' Compensation Claims reporting data (continued)



Sources: TPA Stewardship Report 2017

Food Services

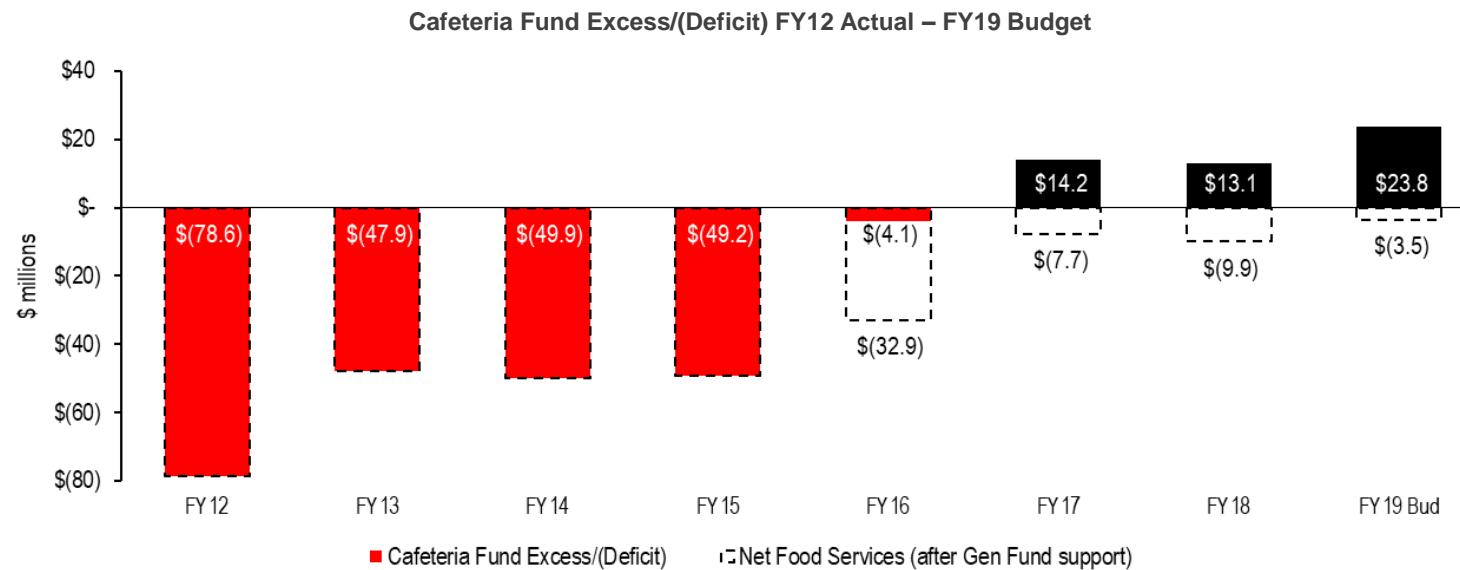
Executive Summary

- Less complex
- Moderate
- More complex

Current State	<ul style="list-style-type: none"> ► LAUSD's Food Services program is comprised of expenses in the Cafeteria Fund (\$396M FY19) plus additional support from the General Fund (\$27M FY19). It serves ~140 million meals annually across 681 campus locations / 1,300 individual units. ► For the past two years, the Cafeteria Fund has generated a surplus (historically loss making prior to FY17); however, the overall Food Services program continues to lose money due to the incurrence of food services expenses in the General Fund (mainly related to the warehouse). 			
Finding	Recommendation	Difficulty ^[1]	Timing ^[1]	Illustrative Impact ^[1]
1. The Cafeteria Fund has generated a ~\$13M surplus over the past two years; however, this surplus cannot be used to offset the ~\$25M in expenses incurred by the General Fund (mainly related to warehouse functions) unless these expenses are eligible for transfer to the Cafeteria Fund.	Request approval from the California Department of Education ("CDE") to transfer General Fund food services expenses to the Cafeteria Fund (in process): <ul style="list-style-type: none"> a) Relevant full time equivalent ("FTE") personnel costs can likely be transferred and certified. b) Job cost related personnel costs and maintenance and operations costs may be more challenging to transfer or certify if not expressly dedicated to food service related activities. 	● ● ●	1a) <6 months 1b) <6 months	1a) ~\$11M 1b) ~\$13-16M
2. Food and labor account for >90% of cost in the District's food services program. LAUSD is broadly in-line with other major school districts in food costs but disproportionately higher in benefit costs.	Strategic sourcing of food vendors presents incremental opportunities to lower food costs. Refer to section II. Procurement for further detail.	●	6 - 9 months	See section II. Procurement
3. Board policy requires that employees are scheduled for a minimum of 4 hours per shift, resulting in employees receiving full benefits under the collective bargaining agreement ("CBA"). The benefit load associated with a 4-hour worker is ~184% of base salary, significantly increasing costs and limiting labor flexibility.	Consider removing the requirement to staff food service workers for a minimum of 4 hours per day.	● ●	FY 19-20	~\$0-\$18M
			Total	\$24M-\$45M

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Finding #1. The Cafeteria Fund has improved from generating a deficit to generating a surplus. The transfer of ongoing General Fund support to absorb this surplus is key



See footnote 1 below

Difficulty: ● / ●
Timing: <6 months
Potential \$: ~\$11M / ~\$16M

Sources: FY12 – FY17 LAUSD CAFR for each fiscal year; FY18 preliminary management accounts; FY19 Superintendents Final Budget

- Since FY16, the Cafeteria Fund has generated a surplus in each of FY17 (~\$14M) and FY18 (~\$13M) and is budgeted to generate an increased surplus of ~\$24M in FY19. This improvement has led to a reduced reliance on General Fund transfers to cover annual deficits.
- In FY16, the District made the decision to transfer certain costs from the Cafeteria Fund to the General Fund over concerns about certifying their eligibility for CDE compliance purposes. This is responsible for the majority of the Cafeteria Fund improvement in FY16.
- In addition to this, the incremental improved financial performance of the Cafeteria Fund is a result of revenue growth aided by the expansion of programs (e.g. Breakfast in the classroom, hot suppers) and a change in federal certification requirements. This has increased free/reduced price meal ("FRPM") eligibility in certain schools.
- As any surplus created in the Cafeteria Fund must remain in that fund, transferring General Fund support dollars back into the Cafeteria Fund is critical to achieving cost savings for food services.

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Finding #1 (continued). Of the ~\$27 million in budgeted FY19 General Fund support for food services, ~\$9 million relates to warehouse personnel and is likely to be the least complex to transfer

General Fund Support FY19 Budget		Amount (\$M)	Transfer Complexity	Compliance Complexity
Warehouse	Personnel Expenses	8.96		
	Job Costs	0.75		
	Other Expenses	0.78		
Transportation	Personnel Expenses	0.06		
	Job Costs	5.30		
	Other Expenses	0.33		
Plant, Maintenance & Ops	Personnel Expenses	1.89		
	Job Costs	2.60		
	Other Expenses	0.71		
Nutrition Center	Personnel Expenses	0.72		
	Other Expenses	0.31		
Other	Job Costs	3.50		
	Other Expenses	0.77		
Community Services	Job Costs	0.67		
Total GF Support FY 2019 Budget		\$27.34		

Source: LAUSD Management Financial Information

- ▶ ~\$9M of warehouse expenses relates to 82 FTEs. If the CDE approves the pro-rata allocation of expenses to federal nutrition programs, based on meals served, the warehouse FTE expenses are the least complex to certify as compliant provided the warehouse FTEs are solely dedicated to food services.
 - ▶ Similarly, the personnel expenses associated with the Nutrition Center are likely to be less complex to certify as compliant.
- ▶ Job costs, particularly transportation and M&O, pose potential compliance certification risks as they relate to individuals whose personnel costs are being split between food services and non-food services expenses (i.e. different funds and different programs).
- ▶ If there are any issues with CDE approval of the expense transfer, consideration should be given to by-passing the warehouse and sourcing all food from vendors that deliver directly to school sites. This would have the effect of increasing food costs but automatically making them eligible for the Cafeteria Fund. The increased food cost would be offset by lower staffing at the warehouse to reflect the significantly reduced throughput (60% of warehouse throughput is estimated by District management to be food).

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

See footnote 1 below

Difficulty: /
 Timing: <6 months
 Potential \$: ~\$11M / ~\$16M

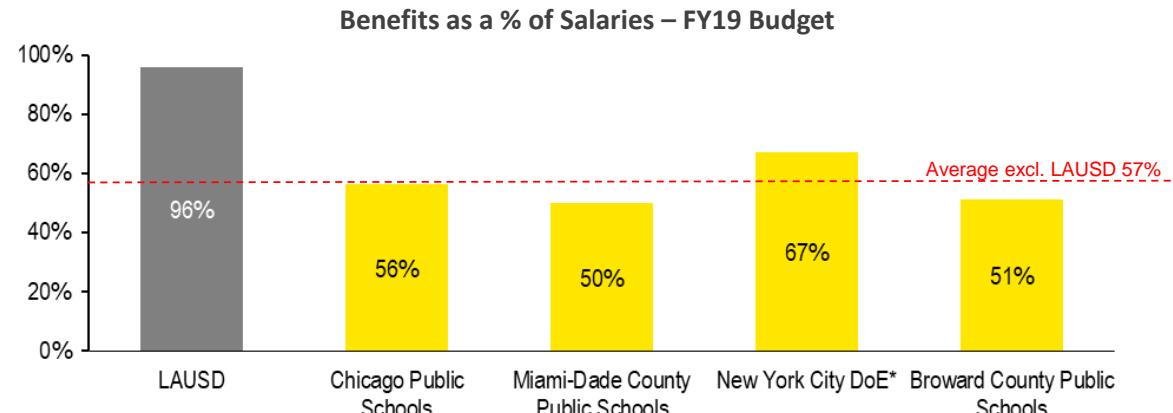
Finding #2. Labor and food account for >90% of costs in the Cafeteria Fund. Employee benefits is a material driver of cost at ~100% of total salaries (incl. overtime, relief & supplemental)

\$ in millions	Actual		Actual		Actual		Budget	CAGR	Expenses as a % of Fund Costs			
	FY16	FY17	FY17	FY18	FY19	FY19			FY16	FY17	FY18	FY19
Total Revenue	\$ 352.7	\$ 374.0	\$ 378.7	\$ 419.8			6%	n/a	n/a	n/a	n/a	
Personnel expenses												
Salary	\$ (86.9)	\$ (89.4)	\$ (94.6)	\$ (94.0)			3%	24%	25%	26%	24%	
Health/Welfare	(41.9)	(43.9)	(45.9)	(46.1)			3%	12%	12%	13%	12%	
Pension	(10.0)	(12.1)	(14.0)	(17.0)			19%	3%	3%	4%	4%	
OPEB Benefits	(19.5)	(18.0)	(17.6)	(16.8)			-5%	5%	5%	5%	4%	
Other Benefits	(9.3)	(9.7)	(9.8)	(10.1)			3%	3%	3%	3%	3%	
Total Personnel expenses	\$ (167.7)	\$ (173.1)	\$ (181.9)	\$ (184.0)			3%	47%	48%	50%	46%	
Non-personnel expenses												Labor & Food
Food	\$ (165.9)	\$ (168.2)	\$ (162.1)	\$ (177.5)			2%	47%	47%	44%	45%	
Transfer of Indirect costs	(12.5)	(11.3)	(13.9)	(18.3)			14%	3%	3%	4%	5%	
Materials & Supplies	(4.9)	(3.9)	(4.1)	(12.0)			35%	1%	1%	1%	3%	
Other	(5.8)	(3.4)	(3.6)	(4.2)			-10%	2%	1%	1%	1%	
Total non-personnel expenses	\$ (189.1)	\$ (186.8)	\$ (183.6)	\$ (212.0)			4%	53%	52%	50%	54%	
Total Expenses	\$ (356.8)	\$ (359.8)	\$ (365.6)	\$ (396.0)			4%	100%	100%	100%	100%	
Cafeteria Fund Excess/(Deficit)	\$ (4.1)	\$ 14.2	\$ 13.1	\$ 23.8								

Source: LAUSD Management Financial Information

- Since FY16, the District has transitioned from generating a Cafeteria Fund deficit to generating a surplus. This is a function of revenue growth (6% CAGR) exceeding cost increases (4% CAGR). District management advises that revenue growth has been achieved due to a change in federal certification requirements, which has increased free / reduced price meal eligibility in certain schools.
- Labor and Food account for >90% of expenses, which is typical of food services (rent, traditionally the third notable contributor, is not a factor in most schools).
- The District's benefit load, at almost 100% of salaries (base salaries + overtime, supplemental, relief & salaries), is a significant driver of cost.
 - Within benefits, healthcare is the largest cost factor.
 - Pension reflects the fastest growing cost component (19% CAGR), reflective of the increases in the required plan contribution rate for CalSTRS and CalPERS.
- Food cost has increased at a 2% CAGR, reflective of good cost control; however, there remains opportunities to reduce costs further through the procurement process.

Finding #2 (continued). The District's food services cost as a % of expenses is slightly above its peers while its benefits load, as a % of total salaries, is notably higher than other large school districts in the US



* New York City DoE does not identify the component of fringe benefits attributable to Food Services within its budget. Fringe benefits for FY19 have been estimated based on the FY16 and FY17 'Systemwide Expenditure Reports' for NYC DoE

School Districts	Food Services Fund Expenses FY 19 Budget		
	Food %	Other %	Total %
LAUSD	45%	55%	100%
Chicago Public Schools	40%	60%	100%
Miami-Dade County Public Schools	44%	56%	100%
New York City DoE**	43%	57%	100%
Broward County Public Schools	43%	57%	100%
Peer Group Average (excl LA Unified)	42%	58%	100%

** New York City DoE does not identify the component of fringe benefits attributable to Food Services within its budget. Fringe benefits for FY19 have been estimated based on the FY16 and FY17 'Systemwide Expenditure Reports' for NYC DoE

Sources: 1. LAUSD: Management Financial Information; 2. Chicago Public Schools FY19 Budget Book; 3. Miami Dade County Public Schools State Budget Forms 2018-2019; 4. New York DoE Fiscal 2019 Preliminary Budget; 5. Broward County Tentative District Budget July 31, 2018

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

See footnote 1 below

Difficulty:



Timing: 6 – 9 months

Potential \$: \$10M-\$13M

- The school districts included in the comparison on this page represent 5 of the 6 largest districts in the US, by enrollment.
- Clark County was omitted from the comparison as its food services expenditures were not identifiable within its published annual budget.
- The District's benefit load (benefits as a % of salaries (including overtime supplemental & relief salaries), at 96% in FY19 Budget, is significantly higher than this peer group (average 57%).
- The District's disproportionate benefit load is a function of:
 - i. The provision of full-time benefits to all food services workers, including part time employees.
 - ii. None of LAUSD's healthcare plans require employee contributions to premium costs (Chicago, Miami-Dade & Broward plans all require, at a minimum, contributions for dependents. New York has some zero contribution and some employee contribution plans).
- The District's food cost as a percentage of food services expenses is slightly above its peers. Improvements to the procurement process, including strategic sourcing, consolidation of vendors, volume pricing agreements and reverse auctions could potentially generate ~\$10M - ~\$13M in food savings. This level of savings would likely bring LAUSD back in line with these peers.

Finding #3. Board policy requires employees to be scheduled for a minimum of 4 hours. The total cost of hiring a 4 hour employee is almost 3 times their salary, after health and other benefits

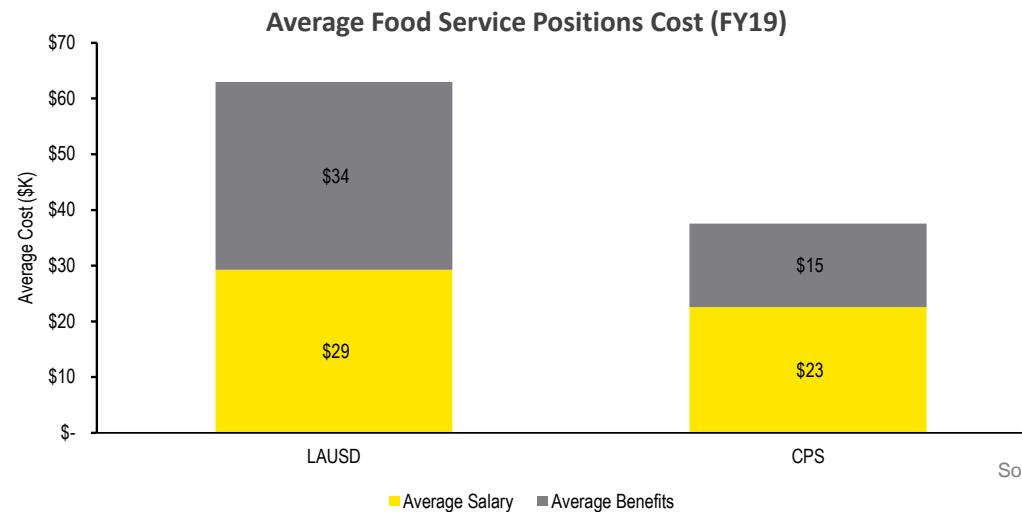
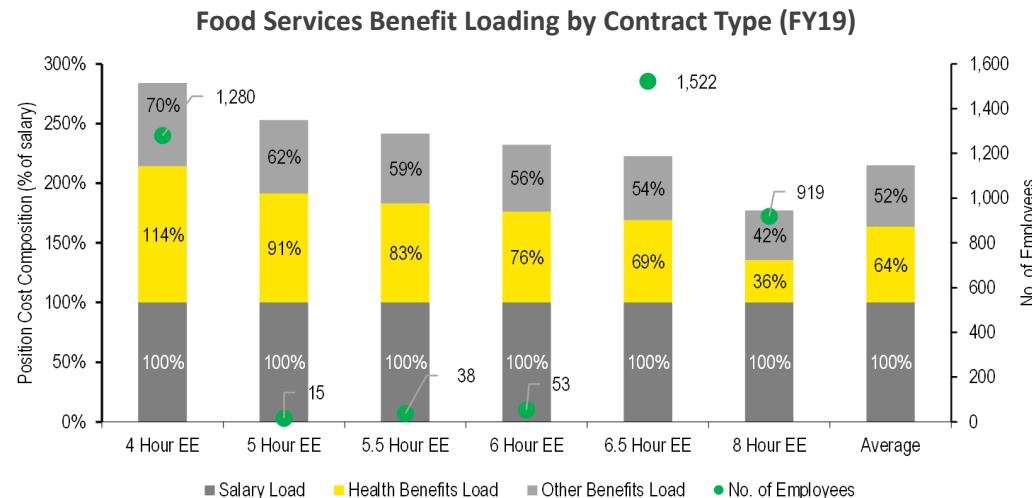
See footnote 1 below

Difficulty:



Timing: FY19-20

Potential \$: \$0-\$18M



Sources: 1. LAUSD Position Report 08.07.18; 2. Chicago Public Schools Employee Position Roster 06.30.2018 (www.cps.edu)

- LAUSD's Food Services Division employs 3,827 employees (2,868 FTE) totalling \$84 million of base salaries (excluding overtime, supplemental & relief salaries) and \$97 million of associated benefits and pensions.
- A District Board policy, approved in 2007, mandated that part-time workers be scheduled for a minimum of 4 hours per day. This timing entitles 4 hour workers to receive full healthcare benefits and consequently materially increases the cost of a part time employee.
 - The benefits cost of hiring a 4 hour employee is an additional 184% of base salary (excluding overtime).
- Allowing LAUSD to hire 2 and 3 hour employees instead of 4 hour employees could reduce the costs of the Cafeteria Fund by up to \$17.9 million annually (refer to Appendix C – Food Services for calculation).
- Chicago Public Schools ('CPS') is the 3rd largest school district in the US by enrollment and the closest in size to LAUSD. Detailed personnel information for CPS is publicly available, facilitating the comparison of food services position costs between the districts.
- Average salaries for LAUSD are ~26% higher than at CPS (\$29k vs \$23k) for food services positions, compared to a 10% difference in annual wage between Los Angeles (\$27k) and Chicago food labor (\$25k) according to the Bureau of Labor Statistics.
- Although average salaries are higher for LAUSD, it is benefit cost which is the most significant disconnect, exceeding CPS by ~226% (\$34k vs \$15k).

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Finding: The District's breakfast participation, food costs and productivity are both in the leading quartile of school districts while lunch participation and overall costs lag

KPI:	Breakfast participation	Lunch participation	Cost/Meal (incl General Fund)	Food Cost/Meal	Food Cost/Meal (incl Distribution)	Meals per Labor Hour (productivity)
LAUSD FY18	63%	55%	\$ 3.49	\$ 1.53	\$ 1.68	24.3
Quartile Ranking	1st	4th	3rd	3rd	2nd	1st
Quartile*						
Upper	54%	80%	\$ 4.04	\$ 1.98	\$ 1.98	19.4
Median	41%	67%	\$ 3.62	\$ 1.67	\$ 1.67	16.3
Lower	31%	56%	\$ 3.08	\$ 1.45	\$ 1.45	14.4
Formula	Breakfasts Served/ Enrollment of entire District x No. of School Days in the Year	Lunch Served/ Enrollment of entire District x No. of School Days in the Year	Total Direct Cost Relating to Food Services/Total Meal Equivalent**	Total Food Cost/Total Meal Equivalent**	Total Food Cost including distribution/Total Meal Equivalent**	(Breakfasts*0.5 + lunches + snacks) /Total labor hours of food services staff
Description	% of District students participating in breakfast	% of District students participating in lunch	Average cost of a meal, including all food service costs (incl labor)	Average cost of a meal based on food only (excl labor)	Average cost of a meal based on food only (incl distribution)	Average number of meals served per hour of labor

* Quartile data based on Council of Great City Schools ('CGCS') Report October 2018

** Total Meal Equivalents = total meal counts of all meal types with Breakfast weighted as 0.5, snack as 0.25, lunch as 1.0 and supper as 1.0, in line with the weightings applied by CGCS

- According to the CGCS, participation in breakfast has a high correlation with school attendance, alertness, health and academic success. The District introduced Breakfast in the Classroom ('BIC') in FY13 and expanded it in FY17 as a means of increasing participation, helping contribute to its upper quartile position.
- Participation in lunch, per the CGCS, indicates customer satisfaction because food selections at schools are appealing, quick, and economical. The District is in the bottom quartile in this metric. Higher throughput generally creates cost efficiencies and one factor that should be considered to improve participation includes having more points of sale ('POS') to reduce waiting times.
 - In order to do this in a fiscally controlled manner, the ability to engage employees on less than 4 hour shifts is necessary.
- Overall cost/meal is in the third quartile, broadly in line with the median. The District's underperformance in this category is largely attributable to its higher cost of labor.
- The District's food cost/meal is in the leading quartile, albeit LAUSD's costs exclude a component of distribution as most food is delivered first to the District's warehouse and then on to schools. For vendors who deliver direct to school sites, these distribution costs will be included in the food cost. Including the relevant transport and warehouse costs, this implies LAUSD is in the higher cost 2nd quartile.
- LAUSD's productivity (meals per labor hour - 'MPLH') is in the upper quartile overall, although secondary schools as a group fall within the second quartile (average 19.3 MPLH). This further emphasizes that LAUSD's high labor costs are not a result of inefficient staffing but of disproportionately high costs per employee.

Appendix – Food Services

Appendix A – Food Services

Summary of Cafeteria Fund Excess/ Deficits

\$ in Millions	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19 Budget
Total Revenue	\$ 246.5	\$ 293.2	\$ 324.1	\$ 336.5	\$ 352.7	\$ 374.0	\$ 378.7	\$ 419.8
Expenses								
Salaries	\$ (88.4)	\$ (86.0)	\$ (88.7)	\$ (97.5)	\$ (86.9)	\$ (89.4)	\$ (94.6)	\$ (94.0)
Benefits	(78.0)	(78.8)	(81.7)	(82.9)	(80.8)	(83.7)	(87.3)	(90.0)
Books & Supplies	(139.1)	(163.3)	(188.3)	(182.3)	(170.9)	(172.1)	(166.2)	(189.5)
Transfers - Indirect Costs	(14.8)	(9.3)	(11.3)	(18.2)	(12.5)	(11.3)	(13.9)	(18.3)
Other	(4.7)	(3.7)	(3.9)	(4.8)	(5.8)	(3.4)	(3.6)	(4.2)
Total Expenses	\$ (325.1)	\$ (341.1)	\$ (374.0)	\$ (385.7)	\$ (356.8)	\$ (359.8)	\$ (365.6)	\$ (396.0)
Cafeteria Fund Excess/(Deficit)	\$ (78.6)	\$ (47.9)	\$ (49.9)	\$ (49.2)	\$ (4.1)	\$ 14.2	\$ 13.1	\$ 23.8
General Fund Support					\$ (28.8)	\$ (21.9)	\$ (23.1)	\$ (27.3)
Fund Excess/Deficit (after Gen Fund support)	\$ (78.6)	\$ (47.9)	\$ (49.9)	\$ (49.2)	\$ (32.9)	\$ (7.7)	\$ (9.9)	\$ (3.5)

Sources: 1. FY12-FY17 LAUSD CAFR(s) 2. FY18 – FY19 LAUSD management information

Appendix B – Food Services

General Fund has provided between ~\$22M-\$29M annually in non-reimbursed support for the food services program since FY16

\$ in Millions	Actual	Actual	Actual	Budget	YoY change			
	FY16	FY17	FY18	FY19	FY17	FY18	FY19	
Food Services								
Personnel	\$ 21.47	\$ 16.93	\$ 15.65	\$ 19.30	(21%)	(8%)	23%	
Non-personnel	\$ 4.62	\$ 1.49	\$ 1.76	\$ 2.16	(68%)	18%	23%	
Total Food Services	\$ 26.10	\$ 18.42	\$ 17.41	\$ 21.46	(29%)	(5%)	23%	
Community Services								
Personnel	\$ 0.54	\$ 0.57	\$ 0.57	\$ 0.67	5%	1%	17%	
Non-personnel	\$ 0.00	\$ 0.00	\$ 0.00	\$ -	(60%)	9%	(100%)	
Total Community Services	\$ 0.54	\$ 0.57	\$ 0.57	\$ 0.67	5%	1%	17%	
Plant Maintenance and Operations								
Personnel	\$ 2.18	\$ 2.70	\$ 4.87	\$ 4.49	24%	81%	(8%)	
Non-personnel	\$ 0.01	\$ 0.16	\$ 0.20	\$ 0.71	1,354%	25%	248%	
Total Plant Maintenance and Operations	\$ 2.19	\$ 2.86	\$ 5.08	\$ 5.20	30%	78%	2%	
Facilities Acquisition and Construction	\$ -	\$ 0.02	\$ 0.01	\$ -	-	(23%)	(100%)	
Total General Fund Support	\$ 28.82	\$ 21.86	\$ 23.08	\$ 27.34	(24%)	6%	18%	

Source: LAUSD Management Financial Information

- ▶ Certain food services costs are funded from the General Fund over legacy concerns about certifying their eligibility for CDE compliance purposes. For example, a warehouse stock picker would need to certify (i) that they were solely dedicated to food services and (ii) the specific nutrition program to which their time was dedicated.
 - ▶ When the Cafeteria Fund was generating a deficit, there was no financial incentive to seek to transfer these costs from the General Fund back into the Cafeteria Fund.
 - ▶ The District has started the process of seeking CDE approval to transfer these expenses back into the Cafeteria Fund, with expense eligibility based on the pro-rata allocation of expenses to programs by meals served.
- ▶ As of FY18, 75% of the General Fund support into the Cafeteria Fund are from expenditures relating to food services functions (primarily warehouse and transport), and 22% are from plant and maintenance and operations (“M&O”) related functions.

Appendix C – Food Services

Estimated savings in health benefits from removing requirement to schedule a minimum of 4 hours per employee

There are 1280 employees working 4 hours per day in food services. Their aggregate cost is \$15.7 million of salary and \$28.8 million of benefits. Of the benefits, a large portion is attributable to the healthcare benefits (excluding OPEB) which is 155% of salary.

No. of Employees	Hours/Day	Total Hours/Day	Salary	Workers Comp	Unemploy. Benefits	SS Benefits	Pension Benefits	Medicare Benefits	OPEB	Healthcare	Total Cost
1,280	4	5,120	\$15,668,480	\$472,320	\$10,240	\$972,800	\$2,831,360	\$229,120	\$6,412,800	\$17,907,200	\$44,504,320
	% of Salary		100%	3%	0%	6%	18%	1%	41%	155%	

On a per worker basis, that is equivalent to:

1	4	4	\$12,241	\$369	\$8	\$760	\$2,212	\$179	\$5,010	\$13,990	\$34,769
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For illustrative purposes, assuming the theoretical replacement of 1280 employees working 4 hours per day with 2,560 2 hours per day employees (in order to produce the same labor hours), the District would save \$13,990 per employee in healthcare costs.

No. of Employees	Hours/Day	Total Hours/Day	Salary	Workers Comp	Unemploy. Benefits	SS Benefits	Pension Benefits	Medicare Benefits	OPEB	Healthcare	Total Cost
1	2	2	\$6,121	\$185	\$4	\$380	\$1,106	\$90	\$2,505	-	\$10,390
2,560	2	5,120	\$15,668,480	\$472,320	\$10,240	\$972,800	\$2,831,360	\$229,120	\$6,412,800	-	\$26,597,120

By replacing 4 hour labor with 2 hour labor, there are \$17.9 million of potential healthcare savings available. As it is not expected that a full scale supplementation of 4 hour labor with 2 hour labor would occur (e.g. some additional 4+ hour labor could be engaged, 2 hour labor could be offered a higher hourly wage etc.), potential savings are estimated in a range of up to \$17.9 million.

Source: LAUSD Management information: Position Report 08.07.18;

Transportation

Executive Summary (1 of 2)

- Less complex
- Moderate
- More complex

Current State	<ul style="list-style-type: none"> ► LAUSD's Transportation Services Division ("TSD") transports approximately 21,000 students daily across over 1,500 routes. Students are transported for four primary reasons: Special Education, Integration, Distance and Hazard, and No Child Left Behind / Core Waiver. ► TSD's service model for transporting students to and from school is a combination of District-provided and contracted yellow bus service with two major private vendors. ► TSD employs 1,558 personnel and maintains a yellow fleet of 1,307 buses and the District's white fleet of 1,394 vehicles. ► TSD spent ~\$182M on student transportation and fleet maintenance in FY18 (excluding capital one-time funds). State funding has been flat since FY14 (\$39M).
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Finding	Recommendation	Difficulty ^[1]	Timing ^[1]	Illustrative Impact ^[1]
1. Contracted bus routes are costly given declining ridership numbers.	Consolidate ~175 contractor routes up for renewal in June 2019.	●	6-9 months	\$12M
2. Bus routes are not being optimized due to the following factors: <ol style="list-style-type: none"> a) Bus routes are planned based on the number of students eligible for transportation rather than actual ridership. b) Almost 3,000 magnet program students who are not eligible for pupil transportation were assigned to routes in SY19. c) TSD's outdated GPS and routing technologies have limited to no reporting or analytical capabilities resulting in a lack of data to make informed decisions. 	Consolidate District routes by determining ridership, analyzing routes for efficiency in real-time, and leveraging resources effectively: <ol style="list-style-type: none"> a) Change the magnet school pupil transportation policy from an "opt-out" model to "opt-in" transportation and consider home to program distance regarding magnet transportation eligibility. b) Issue RFP for radio-frequency identification ("RFID") readers on buses and RFID cards for students to track daily ridership in real time; build requirement for RFID into contractor agreements. c) Align on magnet program transportation policy decisions including exception approval process with District administrators. Issue RFP for routing and scheduling system. Issue RFP for GPS system (which syncs with RFID readers). 	●	6-12 months	\$2M-\$4M

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Executive Summary (2 of 2)

- Less complex
- Moderate
- More complex

Finding	Recommendation	Difficulty ^[1]	Timing ^[1]	Illustrative Impact ^[1]
3. There is an oversupply of yellow bus inventory based on the number of routes.	Rationalize yellow bus fleet to optimize fleet mix and reduce maintenance and fuel costs: <ul style="list-style-type: none"> a) Dispose of ~250 excess buses b) Dispose of 170 buses as new buses arrive in 2019 	●	a) 3-6 months b) 6-9 months	a) \$4M-\$5M b) \$600K-\$1M
4. There is no formalized vendor performance management process in place to improve bus contractors' on-time performance and ensure that all liquidated damages are being captured.	Implement a vendor performance management framework for the two pupil transportation vendors to improve on-time performance and capture all liquidated damages.	●	3-9 months	\$500K-\$1M
5. The current process for tracking Special Education ("SpEd") student transportation counts is highly manual leading to a loss of some Medi-Cal reimbursement.	Install RFID Readers on all buses to automate tracking of actual student ridership counts and provide RFID Cards to SpEd transportation students.	●	12 months	\$1M-\$2M
6. Due to budget constraints, the District has not consistently replaced its light duty white fleet, leading to high maintenance costs for its white fleet.	To reduce high maintenance costs for white fleet: <ul style="list-style-type: none"> a) Review and revise Policies and Procedures regarding District-owned vehicles including light duty vehicle eligibility. b) Move to an open-ended lease structure for light duty white fleet. 	●	12 months+	\$1M-\$3M
7. TSD is tracking daily bus routes through an ineffective, labor intensive job cost system that is unnecessarily time consuming and outdated.	Eliminate job costing for TSD daily bus routes.	●	3-6 months	\$300K-\$600K
			Total	\$22M-\$29M

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Finding #1: Contracted routes are nearly double the cost of District routes on a cost per rider basis; ~175 contractor bus routes could be considered for consolidation

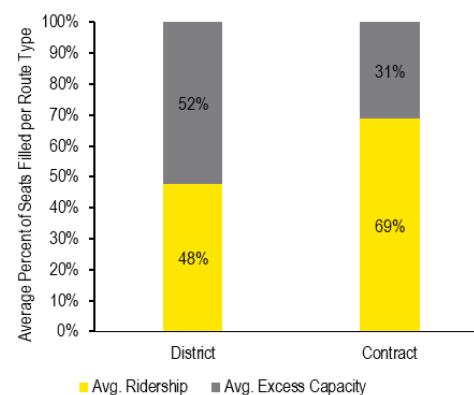
Key Performance Indicators – District

LA Unified FY19	Ridership (Sept 18)	No. of Routes	Cost per Rider (FY18)	Average Rate per Day per Route (FY18)
Integration	12,989	397	\$4,455	\$732
Special Ed	3,886	533	\$9,868	\$362
Total	16,875	930	\$5,702	\$530

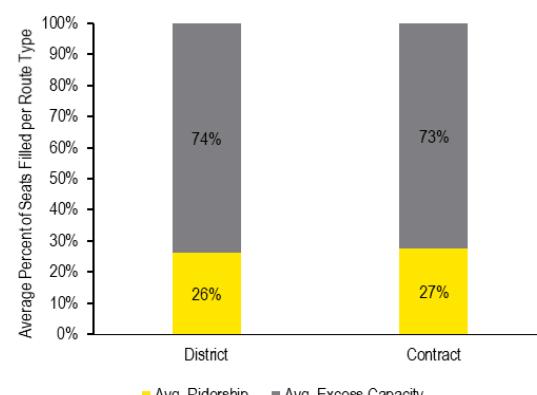
Key Performance Indicators – Contract

LA Unified FY19	Ridership (Sept 18)	No. of Routes	Cost per Rider (FY18)	Average Rate per Day per Route (FY18)
Integration	942	31	\$19,729	\$3,191
Special Ed	4,177	543	\$9,171	\$388
Total	5,119	575	\$11,114	\$550

Bus Capacity – Integration



Bus Capacity – Special Education



Sources: LAUSD Management information

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

See footnote 1 below

Difficulty:



Timing: 6-9 months

Potential \$: \$12M

Findings

- Designated District routes are under utilized, with larger integration buses operating at around 50% capacity. Bus stops/routes for the upcoming school year are released by Student Integration Services in October, even though TSD does not establish routes until the following June after receipt of enrollment data in May.
- While many SpEd students require customized transportation, the District has a higher cost per rider than the contractors. This may be due to the burdensome manual process to implement new routes for these students.
- On a cost per rider basis, contracted routes cost nearly double District routes. Despite declining ridership numbers, the District has been unable to stave off rising contractor costs and unfavorable contract terms (e.g. contracted buses are paid 4 hours/route regardless of actual time needed and contractors are required to have 10% additional capacity).
- While contract bus capacity on integration routes is low at only 31%, the cost per rider is high (close to \$20k per student per year) to transport less than 1,000 students on 31 routes per day.

Recommendations

- Align communications between Student Integration Services, schools, and TSD regarding routes and pick-up/drop-off locations.
- Automate current manual process for SpEd transportation placement process.
- Consolidate ~175 Contractor routes up for renewal in June 2019 (31 integration routes and 144 SpEd routes).
- Continue to evaluate the cost and necessity of contracted bus services.

Finding #2: Routes based on eligibility rather than ridership, leading to high costs per student and per mile

See footnote 1 below

KPIs – Pupil Transportation	No. of Routes	Eligible Riders	Ridership (Sept 18)	Cost per Eligible Rider (FY18)	Cost per Actual Rider (FY18)	Cost per Mile Operated (FY18)	Average Rate per Day per Route (FY18)
Special Education	1,076	11,100	8,063	\$6,906	\$9,507	\$8.87	\$358
Integration	428	26,106	13,931	\$2,883	\$5,488	\$13.42	\$898
Other	31	881	809	\$4,208	\$4,583	-	\$981
Total	1,523	38,498	22,803	\$4,092	\$6,908	\$11.57	\$537
Quartile Ranking*	-	-	-	4 th	4 th	4 th	-
Quartile*							
<i>Top Performing</i>				\$774		\$4.24	
<i>Median</i>				\$1,075		\$5.07	
<i>Worst Performing</i>				\$1,479		\$7.36	
Formula			Sum of direct cost, indirect cost & contractor cost of bus services, divided by number of riders	Sum of direct & indirect costs of bus services, divided by total miles operated	Sum of direct, indirect & contractor cost of bus services, divided by total # of routes, divided by number of school days transportation is available		
Description			Operating cost efficiency per rider	Operating cost efficiency per mile of transportation	Operating cost efficiency per route per day		

* Quartile data based on Council of Great City Schools ('CGCS') Report October 2018

Findings

- ▶ Bus routes are planned based on the student eligibility rather than actual ridership.
- ▶ TSD's outdated routing technology has limited to no reporting or analytical capabilities resulting in lack of data to make informed decisions.
- ▶ The District only counts ridership a handful of times per year, which leads to inaccurate or nonexistent data, making it difficult or impossible to plan and adjust fleets/routes as needed to maximize efficiency.
- ▶ Almost 3,000 magnet program students who are not eligible for pupil transportation were assigned to ~240 routes in FY19. Board transportation policy changes regarding Integration eligibility made in 2012 have not been implemented in practice.

Recommendations

- ▶ Consider consolidating routes by:
 - Changing the magnet transportation policy from an "opt-out" to an "opt-in" model and consider revising home to program distance limit for magnet transportation eligibility.
 - Issue RFP for routing and scheduling system to lower mileage, cut fuel usage, and improve asset utilization.
 - Track ridership on a daily basis in real time by equipping buses and students with RFID readers and cards.
 - Align on magnet program transportation policy decisions including exception approval process with District administrators, families, and schools.

Sources: LAUSD Management information

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Finding #3: Route consolidation and purchase of new buses is leading to an oversupply of aging yellow fleet inventory

Key Performance Indicators – Yellow Fleet		% of Fleet Alt Fuel	Average Age of Fleet (Years)	Cost per Bus (\$)	Daily Runs per Bus
District FY19	74%		10.43	\$90,109	3.04
Quartile Ranking*	1 st		4 th	4 th	4 th
Quartile*					
Top Performing	65%		7.00	\$47,256	5.12
Median	16%		8.10	\$60,272	4.11
Worst Performing	7%		10.00	\$77,139	3.50
Formula	Number of alternatively fueled buses divided by total number of buses	Average age of combined fleet including vehicles beyond economic repair	Total direct and indirect transportation cost divided by total number of buses	Total number of bus runs, divided by the total number of buses used for daily yellow bus services	
Description	Eco-fuel measurement	Average age of district buses	Total cost per bus operating within the district	Number of buses available for the total number of daily trips	

* Quartile data based on Council of Great City Schools ('CGCS') Report October 2018

Findings

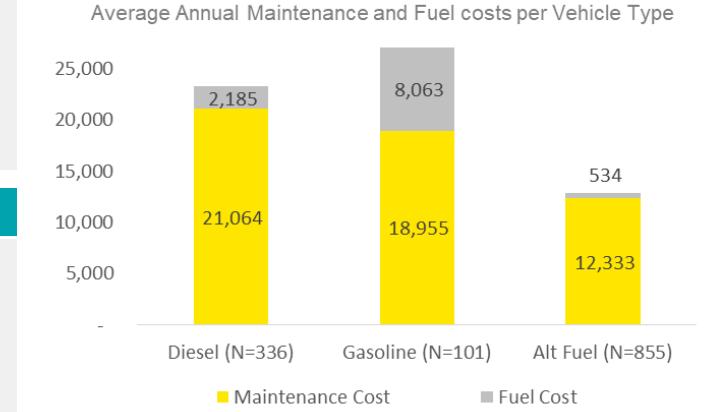
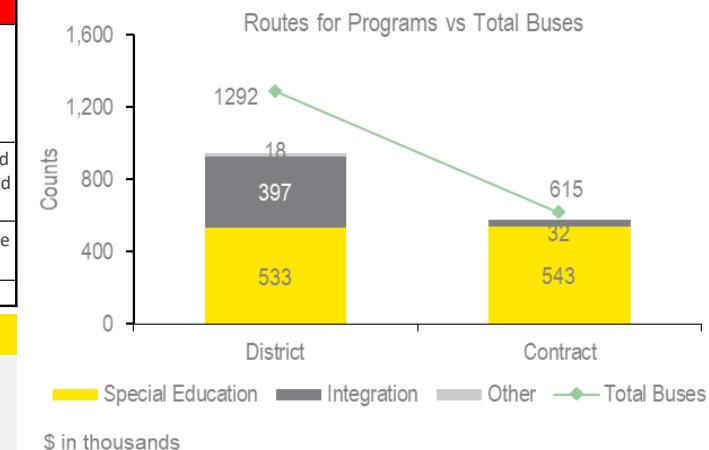
- The District has 1,292 buses (including 145 out of service for repairs) but only operates 900 routes per day. Outside of daily routes, the yellow fleet is used for school-to-school transportation and field trips. Even when considering these incremental needs, it appears the number of buses owned is well in excess of the 15% industry spare ratio standard.
- The District operates ~400 diesel and gas buses that were manufactured before 2007, which is when more stringent emissions regulations went into effect. These buses have a high maintenance cost per vehicle.
- TSD received Measure Q bond funds of ~\$33M which were spent over FY17 to FY18 on 335 new school buses, 170 of which will be delivered in 2019.

Recommendations

- Rationalize yellow bus fleet to optimize fleet mix and reduce maintenance and fuel costs:
 - Dispose ~250 excess buses which have the highest maintenance and fuel costs.
 - As new buses arrive from January to June 2019, dispose of another 170 buses which have high maintenance and fuel costs.
 - Continue to evaluate yellow fleet mix as routes are consolidated.

See footnote 1 below

Difficulty:	●
Timing:	3-9 months
Potential \$:	\$4.6M-\$6M



Sources: LAUSD Management information

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Finding #4: Outdated GPS technology has limited reporting and analytical capabilities resulting in lack of data to make informed decisions and assess contractor performance

Difficulty: ●
 Timing: 3-9 months
 Potential \$: \$0.5M-\$1M

See footnote 1 below

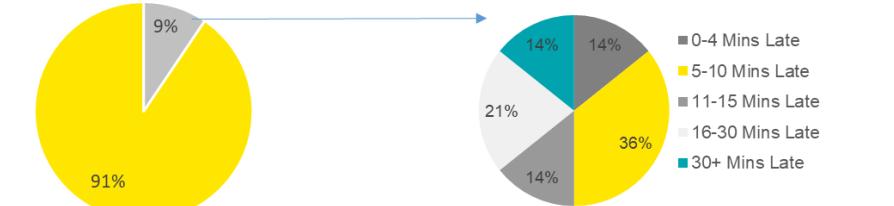
Findings

- LAUSD contracts with two yellow school bus companies for home to school student transportation services: First Student and Student Transportation of America ("STA"). Mission Student Transportation ("MST") merged with STA in January 2018. Historically, the District has spent between \$53M - \$58M annually on contracted bus services, or ~35% of pupil transportation expenditures.
- Each contractor has performance standards set forth in their respective contracts based on on-time performance and a maximum "total allowable incidents" for each month that they are in operation. Incidents typically refer to late or missed trips. Contractors are assessed penalties (liquidated damages) for each late or missed trip.
- TSD is largely monitoring the bus contractors on-time performance manually, as TSD's GPS technology is outdated so is rarely used for performance monitoring due to limited data and reporting. Based on the contractor GPS data available, only 93% of arrivals are on-time with almost 50% of late buses over 11 minutes late.
- Both First Student and STA have been in breach of their "total allowable incidents" for the 2018-19 school year so far – First Student in August 2018 and STA in September 2018.

Recommendations

- Issue a RFP for a GPS system to track contractor (and District) bus locations, ride times and arrival times, as well as quantify "deadhead" miles and communicate with parents and schools for District routes.
- Implement a vendor performance management framework for the two pupil transportation vendors to track and report bus contractor performance metrics and capture and bill all liquidated damages claims accurately.

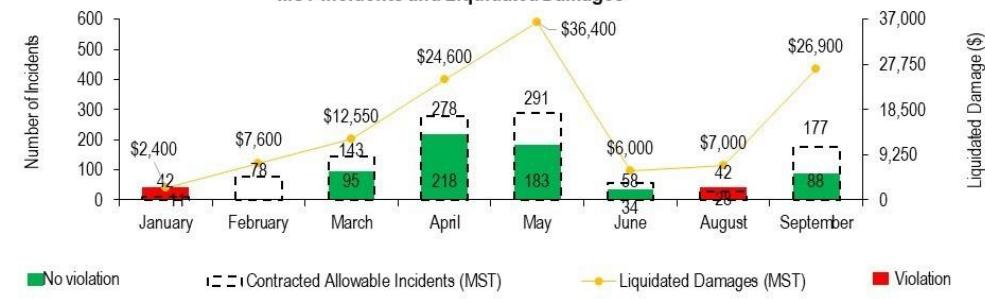
Contract Bus Performance and Late Bus Breakdown



First Student Incidents and Liquidated Damages



MST Incidents and Liquidated Damages



Sources: LAUSD Management information

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Finding #5: Utilization of RFID technology to capture Special Education student transportation data will enable the District to fully capture Medi-Cal reimbursements

See footnote 1 below

Difficulty:



Timing: 12 months

Potential \$: \$1M-\$2M

Medi-Cal Billing Option Program

- The Local Educational Agency Medi-Cal Billing Option (“LEA”) allows LAUSD to be reimbursed for their cost of providing selected health services to Medi-Cal eligible students.
- Specifically, LAUSD can be reimbursed under the Medicaid program for providing specialized medical transportation services to certain Medicaid-eligible children under IDEA.

Eligibility

- In order to bill for covered specialized medical transportation services through the LEA, the District must:
 - Provide transportation in a specially adapted vehicle or one that contains specialized equipment.
 - Document the need for LEA covered medical services and LEA covered specialized medical transportation services in the student's IEP.
 - Provide a transportation trip log that includes the mileage, origination point and destination point for each student, full name, and date transportation was provided.
 - Review school attendance records to verify that the student was in school and received an approved LEA covered medical service (other than transportation).

Billing and Reimbursement

- LEA covered specialized medical transportation services include a per-trip component and a mileage component. These two components must be billed separately using procedure codes for maximum allowable reimbursement rates for a one-way trip of \$18.54 (one-way trip as one unit of service) and for mileage of \$1.30/mile.
- The amount reimbursed is 50% FMAP (Federal Medical Assistance Percentage) – the federal share of a state's Medicaid expenditures. FMAP is determined annually by state.

Findings

- The District's process to capture the information needed to submit Medi-Cal reimbursements is a manual process.
- The District recently piloted a Scantron program for SpEd transportation routes, whereby the students' information is scanned when they board the bus and the data is then directly uploaded into Welligent, instead of the current manual process. On December 3, 2018, Scantron will be live across all SpEd routes.
- While the new Scantron process will be an improvement over the current process, the manual nature currently in place leaves the potential to mis-report ridership leaving Medi-Cal reimbursements unreimbursed.

Recommendations

- Consider installing RFID readers on buses and distributing RFID cards to transportation students.
- The use of RFID technology on all buses will further automate and improve the ability to accurately track student ridership thereby increasing Medi-Cal billings and reimbursements.

Source: Local Educational Agency (LEA) Medi-Cal Billing Option Program Transportation Claiming Guide: June 2017

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

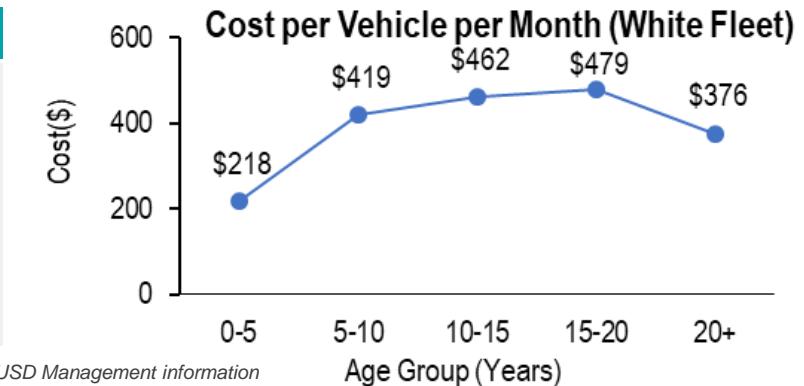
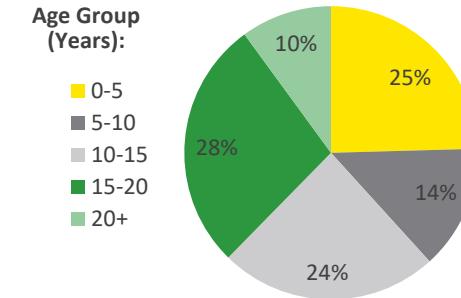
Finding #6: Light duty “white fleet” vehicles can be more costly to fuel and maintain (~\$12M annually); a leasing strategy could reduce these costs by replenishing older inefficient vehicles

Findings
<ul style="list-style-type: none"> TSD operates five major garage facilities in order to service a District-owned fleet of 1,292 yellow school buses, 1,474 trucks, autos, and vans (“white fleet”), and also 1,056 pieces of power equipment. TSD also operates two body shops and handles all fueling needs within District borders at designated fueling stations. TSD’s FY19 budget includes 194 employees for maintenance of the aforementioned fleet at a total employee cost of \$22.8M (which includes 28 vacant positions at \$2.9M). <ul style="list-style-type: none"> The budget is split roughly ~40%/60% between the white (\$8.9M) and yellow (\$13.9M) fleet. In FY18, actual white fleet employee costs were ~\$6.7M and fuel expenditures totaled ~\$5.6M. <ul style="list-style-type: none"> In FY18, actual spend was on average ~\$414 on maintenance (including overhead) per vehicle per month and ~\$248 on fuel per vehicle per month. The average age of the white fleet vehicles is 12.2 years, with over 60% of vehicles over 10 years old and 37% aged 15 years or older. The older vehicles tend to have much higher fuel and maintenance costs, imposing a significant burden on the District and its fleet maintenance workers.

Recommendations
<ul style="list-style-type: none"> An open-ended leasing strategy for the 1,165 light duty portion of the white fleet could lead to close to \$10M in potential savings over 10 years based on an analysis provided by the District. This would require the District to actively liquidate its aging fleet. Such a structure for light duty vehicles could allow the District to outsource light duty vehicle maintenance and replace more vehicles with less capital while reducing maintenance and fuel costs. Before such a program is implemented, a review and revision of the Policies and Procedures regarding District-owned vehicles should be conducted to determine whether the white fleet can be consolidated or further rationalized.

See footnote 1 below
Difficulty: 
Timing: 12 months+
Potential \$: \$1M-\$3M

White Fleet in Operation
(1,474 Vehicles) (Avg Age: 12.2 yrs)



Sources: LAUSD Management information

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Finding #7: A review of the TSD Job Cost Accounting process should be held with the CFO's office to determine what parts of the process to simplify or eliminate*See footnote 1 below***Findings****Background to TSD job costing**

- ▶ LAUSD received TIIG integration reimbursements years ago which required detailed route accounting. The funding requirements have since changed and no longer requires the detailed accounting of each route to be tied to a specific school or education goal. In spite of requirement changes, LAUSD continues to track all daily school transportation through a job cost billing system.

Job-costing - home to school/school to home pupil transportation

- ▶ Every route is tracked by a time consuming, detailed job cost billing system that attempts to record the cost of individual bus driver salaries and other associated costs of each route to the schools served.
- ▶ There are 9 job cost data entry operators who sit within TSD (under Bus Operations), at a cost of \$600,000 per year for salary and benefits.
- ▶ In a review of similar size districts, including San Diego, an outside benchmark analysis performed by a third party did not find a district, other than LAUSD, that was tracking expenses for transportation on a daily job cost basis.

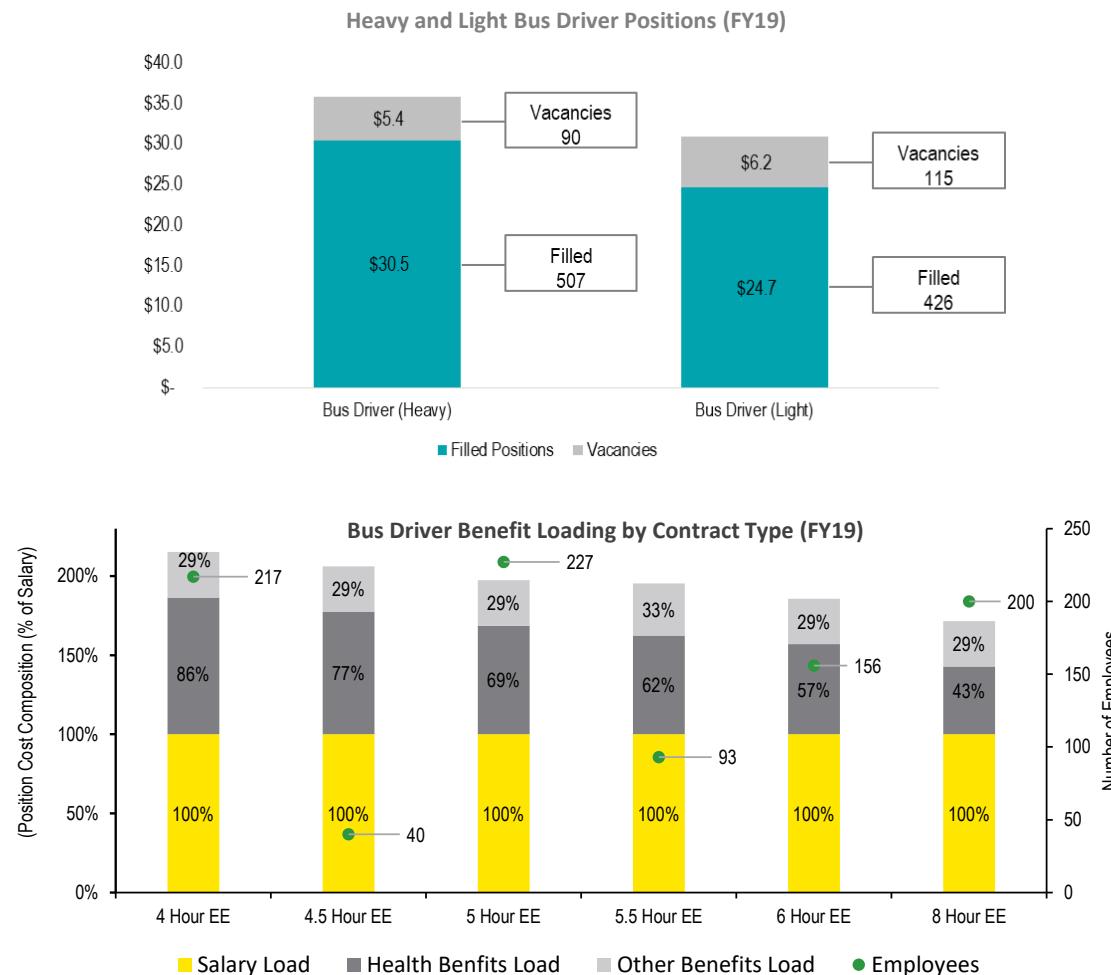
Difficulty:**Timing:** 3-6 months**Potential \$:** \$300k-\$600k**Recommendations**

- ▶ Review the TSD job-costing process with CFO's office to determine what parts of the process may be simplified or eliminated.
- ▶ LAUSD should follow the recommended methods in the California School Accounting Manual ("CSAM") that permit pro-rata formula distribution without detail job costing to simplify the process and free up unnecessary resources. The relevant costs could possibly be charged to a central department to avoid the time and resources involved in detailed tracking of the expenses to specific schools. Costs can then be allocated at year-end based upon an agreed-upon methodology (e.g. pro-rata student formula).
- ▶ The simplification and/or discontinuation of the TSD job-costing process should align LAUSD with peer districts and greatly reduce the complication of the system. This can be accomplished within available resources and may result in increased productivity of approximately 9 employees who currently spend some portion of their time tracking job cost details for transportation.

Sources: LAUSD Management information, stakeholder interviews

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Other finding: Various personnel issues in relation to the District's bus drivers may be impacting recruiting, route planning, and operating efficiency within TSD



Sources: LAUSD Management information

Findings
<ul style="list-style-type: none"> Bus drivers comprise close to 60% of TSD personnel, with 933 bus drivers (507 heavy bus drivers and 426 light bus drivers) across ~900 District bus routes. FY19 budgeted bus drivers wages and benefits (for filled positions) are ~\$55M or 34% of total FY19 pupil transportation expenditures. <ul style="list-style-type: none"> There are also 205 unfilled vacant bus driver positions (90 heavy, 115 light) in the FY19 budget or \$11.6M in wages and benefits.
<ul style="list-style-type: none"> Despite declining ridership and reductions in routes, there have been no significant headcount reductions within TSD in recent years.
<ul style="list-style-type: none"> A Board policy, approved in 2007, mandated that part-time workers be scheduled for a minimum of 4 hours per day. This limits TSD's ability to more efficiently manage its staffing and can be costly considering that 4-hour employees are eligible for full healthcare benefits.
<ul style="list-style-type: none"> The classifications of "heavy" and "light" bus drivers are unnecessary distinctions under the CBAs and complicate recruiting and planning.
Recommendations
<ul style="list-style-type: none"> Consider eliminating unneeded vacant bus driver positions within the budget to free up budget dollars. Review the number of bus drivers required, given potential reductions in the number of routes (and buses). Consider the possibility to consolidate bus driver positions by moving part-time positions to full-time positions and removing "heavy" and "light" bus driver classifications to allow more flexibility in staffing.

Appendix – Transportation

Appendix A – Transportation

Benchmarking Summary

 Higher Performance

 Median Performance

 Lower Performance

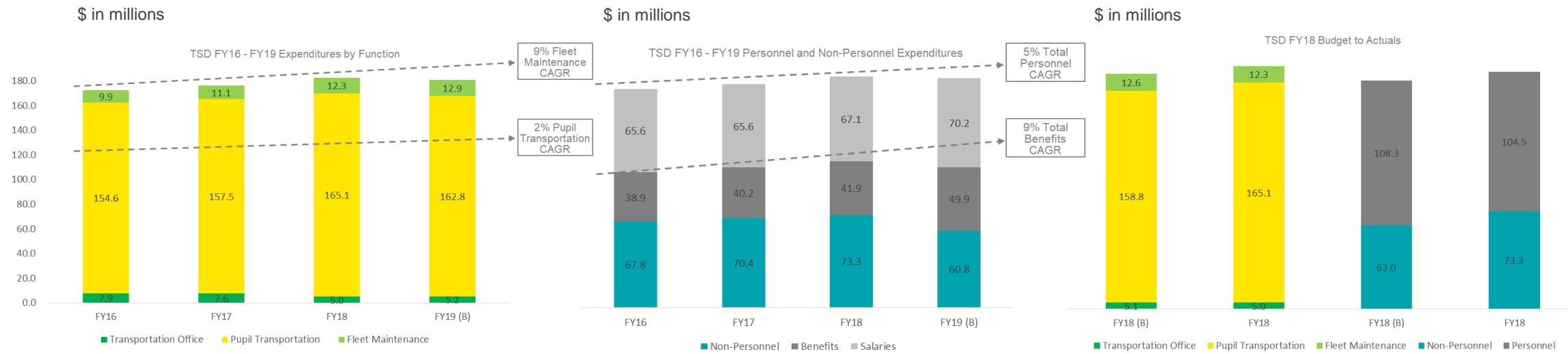
The following is the summary of LAUSD as compared to other districts based on select performance metrics. The information is basis data as reported by Council of the Great City Schools. Where available, data for the agencies has been collected for five years from 2013-2017, unless otherwise noted.

	Key performance category	LAUSD	LAUSD Performance	Highest Performing	Median	Lowest Performing
Fleet Characteristics	Fleet age (yellow buses)	12.8		6.5	8.4	8.8
	Percent of alternatively fueled vehicles	66%		74%	28%	6%
	Percent of buses with GPS tracking capabilities	96%		100%	98%	71%
Service Performance	On-time performance	99.9%		100%	100%	83%
	General education student ride time	41		22	32	36
	Special education student ride time	38		31	42	43
Operational Metrics	Miles between accidents	38,405		70,948	48,116	25,598
	Miles between preventable accidents	133,229		156,606	93,418	59,695
	Fuel cost as a % of retail – diesel (2017)	66%		68%	80%	97%
	Fuel cost as a % of retail – gasoline (2017)	77%		77%	85%	90%
Cost Efficiencies	Cost per mile	\$5.83		\$3.90	\$4.77	\$5.20
	Cost per rider	\$2,731		\$703	\$998	\$1,185
	Cost per bus	\$65,729		\$49,686	\$57,789	\$58,606
Fleet Efficiencies	Daily buses as a % of total buses	91%		91%	86%	66%
	Daily runs per bus	2.17		5.10	4.19	2.70

Source: Council of Great City Schools Report October 2018

Appendix B – Transportation

Financial Trends



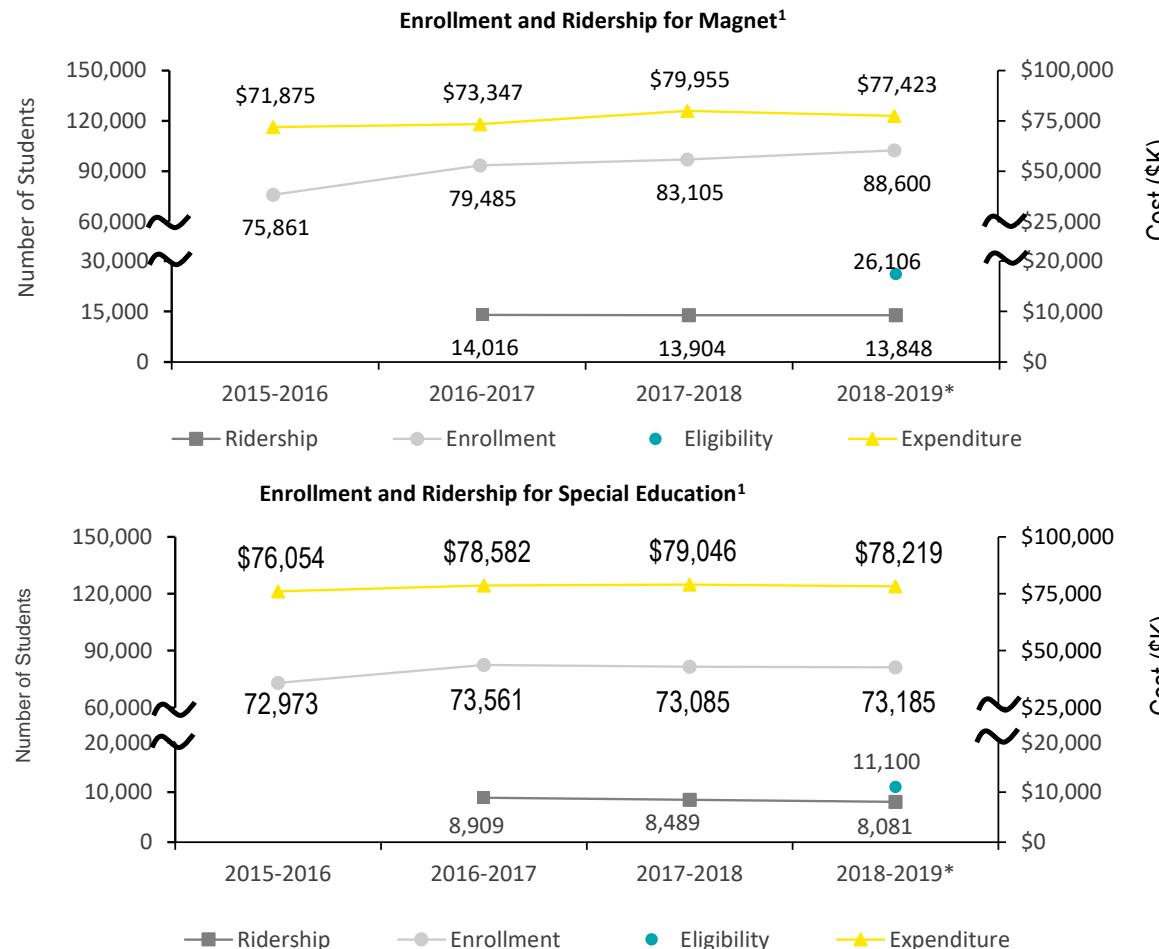
Sources: LAUSD Management information

- TSD's total expenditures have increased at a compounded annual growth rate (CAGR) of 2% since FY16, while personnel related expenditures have increased at a 5% CAGR since FY16. The benefit load, at over 70% of salaries, is a significant driver of this cost and has increased at a 9% CAGR over the same period.
- Bus contractor expenses are the main cost driver of non-personnel expenses, equating to ~35% of total FY18 pupil transportation costs. In FY18, TSD exceeded its budget by \$6M, primarily due to an overage in bus contractor expenditures. In the FY19 budget, contractor costs are budgeted at \$44M compared to \$56M per the contractor agreements, suggesting a potential under-budgeting of contractor costs. The \$13M variance could be made up by offsetting against unfilled vacancies if not filled before year end.
- Fleet Maintenance (White Fleet) costs have increased by 9% CAGR since FY16 due to the rising cost of salaries and benefits and high costs of maintaining the aging white fleet.

* Other Transportation includes alternative transportation costs due to distance or hazards, athletic program transit, community recreation programs, and public carrier fare.

Appendix C – Transportation

Enrollment and Ridership



*2018-2019 expenditures based on FY19 TSD Budget.

1. 2015-2016 ridership information was not available during the span of the analysis. 2. 2017-2018 ridership survey for Region E was not available; figures calculated pro-rata by assigned magnet/SPED students as a % of total riders.

Sources: LAUSD Management Information

► Students are primarily transported for the following reasons:

1. Transportation for **special education** students is mandated by federal law under the Individuals with Disabilities Education Act of 2004 (IDEA). This service is provided regardless of the proximity of the child's home to the child's school of attendance and is based on the child's Individualized Education Program.
2. Magnet, Capacity Adjustment and Permits with Transportation are all **Integration programs** where school bus transportation is provided if the school of attendance exceeds a two-mile radius of the assigned school for elementary students or five-mile radius of the assigned school for middle and high school students.
3. Students are transported because the walk route they take from home to school and back is potentially **hazardous** (e.g. students who must cross freeway off ramps, railroad tracks or other hazardous conditions as determined by the Board of Education).

► Despite continuing declines in overall District student enrollment, magnet program enrollment has grown 25% since 2015-16; however magnet student ridership has been declining. Some of this decline is attributed to students moving schools. TSD plans its bus routes based on eligibility, as opposed to ridership, which is reflected in rising integration program expenditures which increased at a 3% compounded annual growth rate (CAGR) since FY16.

► TSD SpEd program expenditures increased at a 1% CAGR since FY16 despite gradual declines in ridership.

Facilities M&O

Executive Summary

- Less complex
- Moderate
- More complex

Current State	<ul style="list-style-type: none"> ► LAUSD Facilities Maintenance & Operations ("M&O") comprises over 4,000 in-house crafts people and staff, responsible for maintaining the District's ~92.5 million sq. ft. of real estate. In FY18, M&O costs totaled ~\$618 million. ► LAUSD's portfolio of properties has grown over recent years, despite declining enrollment. Many properties are old and nearing the end of their useful lives, increasing emergent demands. The M&O team has prioritized resources to focus on emergency work orders and has implemented initiatives to increase the efficiency of operations, yet continues to be challenged to meet the demands required to maintain LAUSD facilities. 			
Finding	Recommendation	Difficulty ^[1]	Timing ^[1]	Illustrative Impact ^[1]
1. Staffing levels for M&O were significantly reduced in recent years and despite a rebound to an acceptable range based on industry practice, it is unable to fully meet the needs of schools.	<ul style="list-style-type: none"> a. Consider using outside service providers to supplement the workforce and complete routine activities ("Out-Tasking"). b. Consider a transition to an Integrated Facilities Management ("IFM") outsource model for all services where possible. 	● ●	6-9 months + 12 months +	\$4M-\$6M \$6M-\$7M
2. M&O staff are attempting to navigate and improve District processes, but many constraints and inefficiencies exist. Work orders average >30 days for resolution and >75% are of an emergent nature.	<ul style="list-style-type: none"> a. Improve processes to increase productivity of all M&O staff by implementing a tiered service approach for craft work. b. Hire 12 schedulers to reduce the administrative burden on supervisors. 	● ●	9-12 months 9-12 months	\$1M-\$1.5M \$1M-\$1.5M
3. LAUSD's total square footage of schools has grown 24% since 2001 despite a decline in student enrollment of 15%. Administrative office space is old, with large office and workstations allocated to staff.	<ul style="list-style-type: none"> a. Evaluate reducing the property footprint maintained by developing an appraisal process for consolidation or alternative use across the facilities portfolio. Execute on space reductions. Define parameters based on requirements of CA Ed. Code and look to Board for approval. b. Develop a plan to consolidate staff use of administrative office space in alignment with current and future staffing needs. Excess space could be leased to an outside party. 	● ●	12 months + 9-12 months +	\$16M-\$18M \$6M-\$8M
4. Data is being collected on services provided by M&O resources and the condition of facilities, but the information is not shared across functions or tracked against industry best practices.	Develop meaningful metrics that are tracked and reported against industry benchmarks to identify areas of attention for improvement.	●	3-5 months	TBD
			Total	\$34M-\$42M

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Finding #1. M&O craft workers struggle to meet District needs. Increasing use of outsource provider(s) for routine tasks may save \$4M+ annually, increasing to \$10M+ under a full IFM model

See footnote 1 below

Finding

LAUSD is currently facing a number of staffing challenges. During the recession, the M&O staff was significantly reduced, although headcount has since increased to meet average industry expectations. LAUSD employs over 4,000 in-house craftspeople and staff that require management and administrative support. In-house costs account for 87% of the total M&O spend, not including utilities (see Appendix A for details). This M&O group is challenged to meet the high demand for repairs and maintenance due to the advanced age of the schools and inefficient operational processes. Available resources have focused on urgent and emergency issues instead of earmarking resource time for predictive maintenance, resulting in higher total cost of service.

Difficulty:

Timing: 12 months+

Potential \$: \$10M-\$13M

Recommendation

Consider increasing the use of outsourced service providers to complete routine tasks (“out-tasking”). Over time, consider moving to an outsource model for all tactical services, beginning with commonplace and easily transferrable activities. Leading organizations typically outsource all tactical services to one or two large providers. Given LAUSD’s large geographical footprint, develop regional relationships with strategic vendors to support all maintenance and operation activities.

- ▶ LAUSD should consider utilizing outsource providers for routine, low-skill tasks, such as painting, graffiti removal, filter replacements (a/k/a “out-tasking”). These tasks may be appropriate for some LAUSD craft workers but are not an efficient use of LAUSD’s more experienced crafts workers. Increasing the outsourcing of routine tasks could facilitate a decrease in the number of outsourced complex tasks and provide opportunities to complete routine tasks after hours.
- ▶ Evaluate and negotiate the internal labor agreements in consideration of the ultimate goal of reducing overall costs of the M&O division. Begin to outsource commonplace and easily transferrable services as part of a potential transition to an IFM model. Utilizing out-tasking services will allow attrition to reduce in-house staffing levels or M&O could create a program for staff to voluntarily transfer to the outsource service provider. ~\$10M-13M total annual savings assumes a 3% reduction in M&O and custodial costs under an IFM model.

Benefits

- ▶ Eliminates overhead and administrative need to manage large workforce.
- ▶ Provides the same level of service at a reduced cost.
- ▶ Focuses resources on skilled tasks and predictive maintenance efforts, which will lead to reductions in higher-cost service call work orders.
- ▶ Provides the opportunity to complete maintenance outside of school operating hours.

Challenges

- ▶ Time to identify and transition to strategic vendors to support the M&O team.
- ▶ Short-term additional cost of outsourced, flexible, or temporary resources.
- ▶ Political, labor and legislative hurdles to increased use of outside providers.
- ▶ Contractual constraints with a shift towards increased use of outside vendors for services.

Sources: LAUSD Management information, stakeholder interviews

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

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Finding #2a. Maintenance activities are reactive. The District should consider implementing a tiered system to match craft worker experience to work order complexity and ensure appropriate level of resources are applied

See footnote 1 below

Finding

M&O teams are doing their best to provide service and have improved many processes, yet teams are still reactive and focused on emergencies (see detail in Appendix B). Unplanned emergencies often result in higher costs versus predictive maintenance activities. The average number of days to complete work orders is high despite meeting industry standard staffing levels, suggesting that operational processes are limiting the amount of “wrench time” craft workers spend resolving service calls (see detail in Appendix A). As an example, area directors report that travel times between LAUSD sites often reduces the amount of “wrench time” on site. Additionally, expensive skilled craft worker resources are spending time completing routine tasks (see detail in Appendix C).

Difficulty: 
Timing: 9-12 months
Potential \$: \$1M-\$1.5M

Recommendation

Improve processes to ensure that M&O priorities are focused on the best use of existing resources. Ensure that craft workers with the appropriate skill level and training are assigned to particular work orders. Aligning resources with maintenance needs will improve craft worker efficiency, reduce the time to resolve a work order and eventually limit the need for out-tasked services. In addition, confirm that necessary parts for a work order are on hand to prevent additional trips between M&O sites. Savings estimates are based on the previous school year's maintenance costs and estimated at 1%-3% savings in efficiency per year based on similar industry experiences.

- ▶ Establish a tiered system of complexity for incoming service calls and routine maintenance work orders. Work order complexity will be defined based on historical data and craft supervisor expertise. Work orders are grouped into tiers and associated with necessary craft worker skills and training. Work is then matched with the appropriately skilled worker, based on the complexity of the task, and combined with expected parts availability. Craft workers can transfer work orders to the next appropriate tier if they discover the required work is beyond their skill level.
- ▶ An inventory list should be developed based on common failures seen at LAUSD facilities. Lists and parts could be carried by each tier level of craft worker on their vehicle, matching common activities to common materials. In addition, coverage areas could be defined for each tier of craft worker and aligned with assigned work orders, shortening the travel time and increasing the number of work orders completed per craft worker. Low complexity and high frequency tasks could be grouped into smaller coverage areas, while high complexity tasks and skilled craft workers could typically be responsible for a larger coverage area.

Other Opportunities: Stagger work shifts to increase the amount of work time that falls outside of regular school hours; Develop preventive maintenance (“PM”) work plans at the asset level and generate work orders regularly for each asset that requires a PM and create PM cycles for key items such as painting and HVAC replacement; prioritize PM work orders to reduce the amount of higher cost, disruptive breakdowns that generate service calls.

Benefits

- ▶ Increase productive time at a facility site and reduce travel time.
- ▶ Shorten work order time to issue resolution.
- ▶ Improved preventative maintenance will reduce the number of emergency work orders and as a result, lower work order costs.
- ▶ Build predictability in parts usage.

Challenges

- ▶ Time to develop inventory parts lists.
- ▶ Time to align craft workers to regional coverage areas.
- ▶ Requires training, effort to implement, and discipline to maintain new practices and procedures.
- ▶ Time to update Maximo in order to enable this solution.

Sources: LAUSD Management information, stakeholder interviews

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Finding #2b. Administrative tasks distract Area Facilities Service Directors (“AFSD”) and craft supervisors from valuable responsibilities. Enlist scheduling resources to take responsibility for administrative tasks

See footnote 1 below

Finding

The District's 59 AFSDs are burdened by administrative tasks and spend a large portion (~30%) of their day handling tasks such as on scheduling craft workers, invoice processing, and sourcing parts, reducing the time spent at facility sites to oversee craft workers and assist with field issues. School principals indicate that they have seen field craft workers taking excessive breaks and that maintenance tasks have been unnecessarily overstaffed. AFSDs also report that they have found field craft workers to be unproductive without supervision, as demonstrated by the high average number of days to complete work orders despite M&O having industry standard staffing levels.

Difficulty:



Timing: 9-12 months

Impact: \$1M-\$1.5M

Recommendation

Enlist scheduling resources to absorb administrative tasks that are currently being handled by AFSDs and craft supervisors. Removing administrative burdens from craft supervisors and directors will allow them to focus on necessary maintenance activities such as on-site field presence and ensuring craft workers are working productively to complete assigned work orders to the best of their ability. Craft supervisors should also provide their expert advice on complicated work orders, determine next steps, and influence progress towards resolution.

- Scheduling tasks should be taken over by skilled schedulers who are compensated at the average administrative cost rate (~\$93,989) which is significantly less than the average supervisor cost of \$140,314 (see Appendix D for details). Hiring 12 schedulers and distributing those resources amongst the M&O craft specializations is estimated to cost ~\$1.1M annually. Taking scheduling tasks from supervisors and providing coverage with administrative resources, could create net savings of \$1M-\$1.5M per year by allowing supervisors to focus on high complexity tasks and limit the need for outside vendors to accomplish the same tasks.

Benefits

- Better supervision of craft workers in the field to increase productivity.
- Skilled expertise in the field to assist with higher complexity tasks and to mentorship of craft workers.
- Further understanding of number of hours or resources need to resolve M&O tasks.

Challenges

- Approval for additional division resources.
- Specific training on scheduling skill set.
- Requires training, effort to implement, and discipline to maintain new practices and procedures.

Sources: LAUSD Management information, stakeholder interviews

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Finding #3a. Capacity and utilization data indicate opportunities to reduce square footage, right-size the property footprint, and lower M&O costs, including current inventory of ~5,500 portable buildings

See footnote 1 below

Finding

Enrollment at LAUSD schools has declined approximately 15% since 2001 while square footage of facilities increased 24% (see Appendix E for details). Portable buildings account for approximately 9% of total square footage. Reported data on school capacity and utilization shows that enrollment is at 88% of the defined capacity, which does not reconcile with the trends in enrollment and square footage. While utilization is in line with benchmarks for spare capacity, over 200 schools have >15% excess capacity (see Appendix E for details), leading to ongoing maintenance costs of unused areas. While rebalancing is a challenge, there is excess capacity at many schools.

Difficulty: 

Timing: 12 months+

Impact: \$16-18M*

* Note: Does not include remediation or other costs necessary to achieve savings

Recommendation

Reductions in the footprint of all facilities could reduce ongoing expenses for those areas and allow M&O teams to focus on having a positive impact on utilized areas. Create a task force to identify opportunities for unused or underutilized spaces, including the re-use or conversion of land to other public use or benefit to LAUSD through redevelopment.

- ▶ LAUSD should develop a process to identify facilities that may be consolidated and work to dispose or repurpose the sites, starting with a detailed review of sites that have high excess capacity. Additionally, individual schools should be assessed to determine if M&O activities can be consolidated within that school. CA Ed. Code requirements and school board input could be used to define parameters and approval. Planning teams could work with principals to determine how to efficiently configure schools and create opportunities to portion or divide off space in a safe and secure manner. Inspections could continue with a defined minimum level of maintenance to ensure upkeep and safety. Achieving savings may require a significant upfront cost but could result in projected \$14-15M in annual savings by eliminating maintenance, custodial, and utility costs for excess space, assuming minimal impact on overall District enrollment.
- ▶ The solutions above are beyond the purview of LAUSD Facilities M&O; however, the M&O division does have control over efforts to reduce the remaining ~5,500 portable buildings. M&O should continue to work with schools and identify bungalows that are not being used or where the current use can be relocated to permanent structures. Unused portable buildings could be assessed for value and then monetized or disposed of. A \$2-3M annual savings is estimated for these activities.

Other Opportunities: Enforce standardization program to reduce the variability of parts and reduce the amount of special services provided by the M&O division.

Benefits

- ▶ Allow M&O to focus more efforts on higher utilized facilities.
- ▶ Reduce the total number of assets to be maintained.
- ▶ Minimize M&O costs for unoccupied and underutilized areas.
- ▶ Potential for leasing or conversion of assets and land into revenue generating assets.

Challenges

- ▶ Political and community considerations with consolidating schools and potential re-use of public land.
- ▶ Requires cooperation and acceptance from school principals, communities, students and other users.
- ▶ Board approvals and legal requirements.

Sources: LAUSD Management information, stakeholder interviews

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Finding #3b. Based on current headcounts at 333 S. Beaudry, LAUSD is allocating ~370 square foot of space per employee, compared to leading companies which average ~150 square foot per employee

See footnote 1 below

Finding

LAUSD has over 5 million square feet of administrative office space, including approximately 1.4 million square feet at 333 S. Beaudry in downtown Los Angeles. Large offices and workstations were observed as well as a significant amount of vacancies. Based on current headcounts at 333 S. Beaudry, LAUSD is allocating ~370sf per employee, compared to leading companies which average approx. ~150sf per employee. This space continues to incur expenses for maintenance, cleaning and utilities in the same manner as occupied space.

Difficulty:

Timing: 9 – 12 months+

Impact: \$6-8M*

* Note: Does not include remediation or other costs necessary to achieve savings

Recommendation

Similar to the deep study effort into school capacity and utilization, LAUSD should conduct an assessment of the administrative office areas, with a particular focus on the office building at 333 S. Beaudry. LAUSD should adjust its utilization and space allocation metrics to meet current practices, allowing for a reduction in space. The process should consider any headcount projections, strategic staffing plans, and define LAUSD space needs in relation to industry standards. Space utilization guidelines should be updated to meet current standards, including opportunities for alternative workplace strategies and leasing unused space to other users. A phasing plan to consolidate personnel onto common floors or areas could free up blocks of space to be considered for lease to other parties which would generate revenue for LAUSD.

- It is anticipated that ~250,000sf of office space at 333 S. Beaudry could potentially be vacated through consolidation of LAUSD staff in other areas.
- Current downtown LA office market Full Service Gross ("FSG") rents for similar class office space is ~\$30 psf, implying LAUSD could potentially generate ~\$7.5M of annual rental revenue on excess space.

Benefits

- Potential revenue from leasing of space to other parties.
- Allow for refresh of existing office space to newer finishes and office standards.
- Improved space can positively impact employee morale and productivity, turnover.

Challenges

- Effort required to track metrics and data and to analyze it for use.
- Initial investment to upgrade and consolidate space.

Sources: LAUSD Management information, stakeholder interviews, benchmark data

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Finding #4. Existing M&O data is under-utilized. Use data collected to drive continuous improvement and identify areas for cost savings. Monitor additional KPIs.

See footnote 1 below

Finding

The M&O division is tracking useful and valuable data on performance of operations and the condition of sites. However, this data is not routinely compared to industry benchmarks as a tool to understand how performance compares to industry standards (see Appendix F for details). In some cases, such as with satisfaction surveys, the information collected is subjective in nature and thus has questionable value. While the surveys may be coming back positive, end users have stated that they are not reporting their actual negative opinions (see Appendix G for details).

Difficulty:

Timing: 3-5 months

Impact: TBD

Recommendation

LAUSD should consider tracking metrics and benchmarking them against industry standards to identify areas of focused improvement. This includes tracking KPIs and useful metrics that inform on cost impacting performance. Data can be used to assist with strategic planning, such as: route planning, allocations of technicians by area or by site (including dedicating resources to areas or needs), determination of appropriate skills needed, etc. See appendix for comparisons of current LAUSD data to select industry benchmarks.

- ▶ Use of objective benchmarks to measure personnel performance and increase accountability for meeting benchmark standards. Implement consequences or corrective actions based on objective results. Some additional metrics that could be helpful but that are not tracked or compared against benchmarks include:
 - ▶ # of work orders completed per craftsperson
 - ▶ # work order by trade, by area, by region
- ▶ Revise existing satisfaction survey reports to contain fewer subjective questions. Surveys should provide concrete evidence that the work orders were completed and at a high quality level. Survey questions could be revised to ask: (a) If the requestor received a response indicating that the service call was received and acknowledged; (b) if they were given an estimate on when the issue would be resolved; (c) If the request/issue was resolved; and (d) is any further action needed.
- ▶ Future savings should be expected once tracking and reporting are in place. Savings will be dependent on the identified improvement opportunities made apparent by new KPIs.

Other Opportunities: Prioritize project planning in order to spend time effectively on developing projects that ultimately could get funding approved. Tier approval process to get faster approvals; Establish funding for the replacement of critical assets that are at the end of their useful life. Allow an expedited approval process for projects that meet this replacement criteria. Document, communicate, and enforce prioritization processes. Track time to complete prioritized projects. Improve communication with other division of LAUSD via training. Request feedback on what is relevant information to communicate. Use a single database to track status of planned projects.

Benefits

- ▶ Data collected can provide intelligence on performance and be used to identify areas of improvement.
- ▶ Improvements in metrics translate into cost savings.
- ▶ Effort required to track metrics and data and to analyze it for use.
- ▶ May need to revise processes to ensure appropriate data is collected.

Challenges

Sources: LAUSD Management information, stakeholder interviews

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Other potential areas within LAUSD facilities for further consideration of savings and efficiencies performance assessment

- ▶ **Project planning and development:**
 - Define the school improvement program
 - Evaluate the gate approval process, project prioritization, and communication between M&O teams
- ▶ **Architecture and engineering services:**
 - Understand the scope of energy management programs; energy efficiencies and utility cost reduction strategies
 - Evaluate time to complete designs, project prioritization, and communication between M&O teams
- ▶ **Facilities Condition Assessment (FCA):**
 - Evaluate current assessment process and Facilities Condition Index (FCI) results
 - Future application of collected assessment data
 - Continuation of the FCA program

Appendix – Facilities M&O

Appendix A – Facilities M&O

Finding #1. Overview - FY18 Operational costs

In-house costs account for 87% of the total M&O spend, not including utilities

\$ in millions

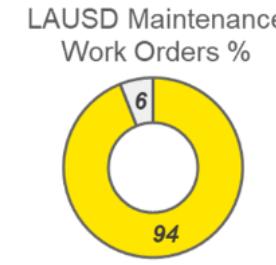
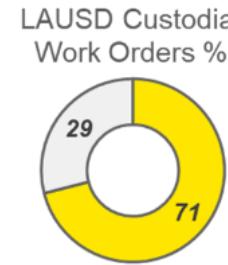
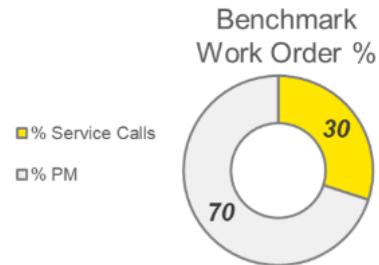
Cost Category	In House Spend	Vendor Spend	Total Spend
Maintenance	\$ 164.2	\$ 63.5	\$ 227.8
Maintenance - Overhead	\$ 21.8		\$ 21.8
Custodial & Grounds/Ops Labor	\$ 208.5		\$ 208.5
Custodial & Grounds/Ops Supplies	\$ 9.4	\$ 1.9	\$ 11.2
Operations Overhead	\$ 5.1		\$ 5.1
Other M&O Admin	\$ 17.6		\$ 17.6
Utilities			\$ 126.0
Total	\$ 426.6	\$ 65.4	\$ 618.0

Source: LAUSD Management information – preliminary FY18 actuals

Appendix B – Facilities M&O

Finding #2a. FY18 work orders and FY18 service calls

M&O teams focus on reactive service calls at the expense of preventive maintenance ('PM')

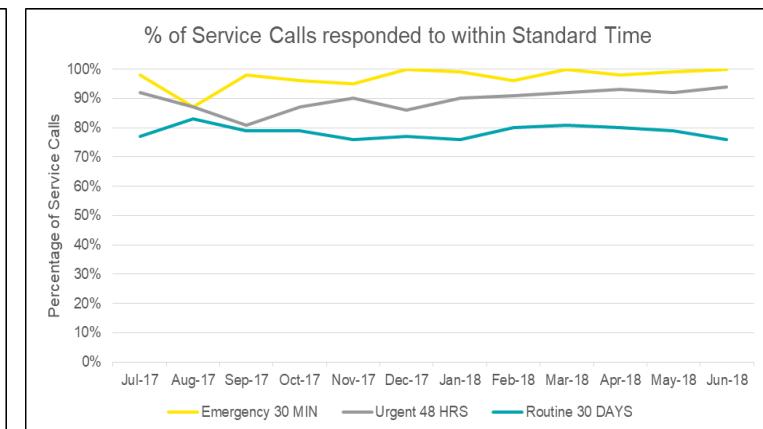
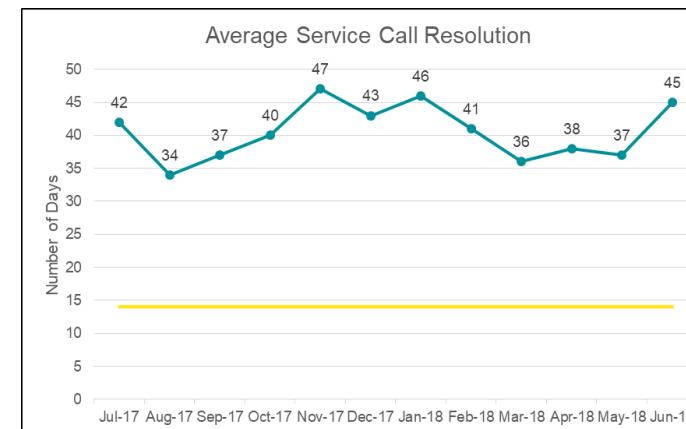


- LAUSD's current ratio of service calls versus preventive maintenance is not in line with industry benchmarks. The work order ratio at leading organizations typically breaks down to 30% unplanned work and 70% planned PMs
- According to last year's work order data, LAUSD's M&O department was overwhelmed with service calls due to emergencies, struggling to keep up with the volume of incoming calls. One maintenance area reported roughly 200 service calls per day, with the ability to complete only 100 calls in the same timeframe
- LAUSD's maintenance program is highly reactive, with minimal future planning. While preventive maintenance is being done, it is focused on regulatory requirements and PM work orders are generated at a site level versus at an asset level, resulting in loss of equipment history and tracking

Source: LAUSD Management information, benchmark data

M&O appropriately prioritizes emergency calls, but does not efficiently complete routine work

- M&O effectively prioritizes emergency calls, but at the expense of routine calls
- The current time to resolve service calls is longer than the expected benchmark. Leading facilities operations strive to have over 95% of work orders completed within an expected timeframe. For example, routine calls should be resolved within 7-14 days
- Work orders that take longer than 30 days to resolve should be rare. Larger scopes of work should be reclassified as small projects and managed outside of the work order process



Source: LAUSD Management information, benchmark data

Appendix C – Facilities M&O

Expensive skilled resources are spending time completing routine tasks

Job Title	Average Cost
<i>Carpentry</i>	
Senior Carpenter	\$ 114,672
Carpenter	\$ 107,997
Difference	\$ 6,675
<i>Electrical</i>	
Senior Electrician	\$ 119,296
Electrician	\$ 112,247
Difference	\$ 7,049
<i>Plumbing</i>	
Senior Plumber	\$ 122,074
Plumber	\$ 114,945
Difference	\$ 7,129
<i>Heating & Air Conditioning (HVAC)</i>	
Senior HVAC Technician	\$ 123,351
HVAC Technician	\$ 116,132
Difference	\$ 7,219
Difference between average Senior Craft Workers cost and average Craft Workers cost	\$ 7,018
Cost Difference for 102 Senior Craft Workers	\$ 715,836
Average Cost on Administrative Tasks (30%)	\$ 214,751

- Across M&O crafts, the cost difference between craft field worker and a senior craft field workers is approximately \$7,000
- At present, there are 102 senior craft workers employed
 - Employing senior craft workers results in a yearly cost of ~\$716,000 above the cost of employing non-senior craft field workers
- Based on LAUSD Management interviews, senior craft field workers reportedly spend up to 30% of their work day on tasks that could be handled by non-senior craft field workers
 - The M&O department is spending an extra ~\$215,000 per year paying senior craft field workers to complete routine tasks, below their level of expertise
- LAUSD's skilled workforce is stretched to meet facility needs and deliver necessary services. There is an opportunity to align resources with responsibilities and improve the productivity of all craft workers

Source: LAUSD Management information

Appendix D – Facilities M&O

Finding #2b. Craft supervisor priorities

Highly skilled craft supervisors spend valuable time on administrative tasks

Job Title	Average Cost	Positions
Electrical Technical Supervisor	\$ 158,212	1
Floor Covering Technical Supervisor	\$ 158,207	1
Swimming Pool Technical Supervisor	\$ 154,758	1
Area HVAC Supervisor	\$ 150,939	5
Area Plumping Supervisor	\$ 149,179	7
Area Electrical Supervisor	\$ 145,181	8
Paving Supervisor	\$ 144,721	1
Landscaping Supervisor	\$ 131,806	1
Glazing Supervisor	\$ 131,226	1
Area Carpentry Supervisor	\$ 126,086	4
Area Operations Supervisor	\$ 120,119	28
Tree Maintenance Supervisor	\$ 113,331	1
Average Maintenance Area Supervisor Cost	\$ 140,314	59
Average Maintenance Area Supervisor Cost on Administrative Tasks (30%)	\$ 42,094	59
Average M&O Administrative Cost (Schedulers)	\$ 93,989	12
Potential Cost Savings		\$ 1,355,685

- Director interviews indicated that area supervisors spend a large portion, around 30% of their day on administrative tasks such as scheduling, invoice processing, etc. These activities cost LAUSD \$42,094 per supervisor
- LAUSD currently employs 59 supervisors, resulting in a total yearly cost of \$2,483,558 spent on scheduling activities
- Scheduling tasks should be taken over by skilled schedulers who are compensated at the average administrative cost rate
- Hiring 12 schedulers and distributing those resources amongst the M&O craft specializations will cost \$1,127,868
- Taking scheduling tasks from supervisors and providing coverage with administrative resources, could create net savings of \$1-1.5M per year
- LAUSD's skilled workforce is stretched to meet facility needs and deliver necessary services. There is an opportunity to align resources with responsibilities and improve the productivity of supervisors

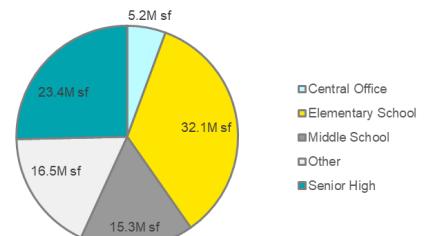
Source: LAUSD Management information. Cost reflects salary and benefits

Appendix E – Facilities M&O

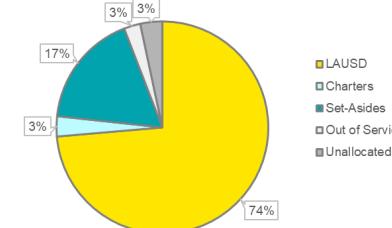
Finding #3a. Portfolio Allocation and Capacity

LAUSD's portfolio of properties is vast and has grown despite falling enrollment

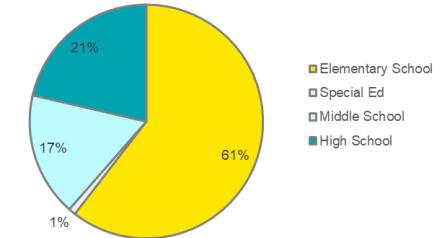
Total SF of properties



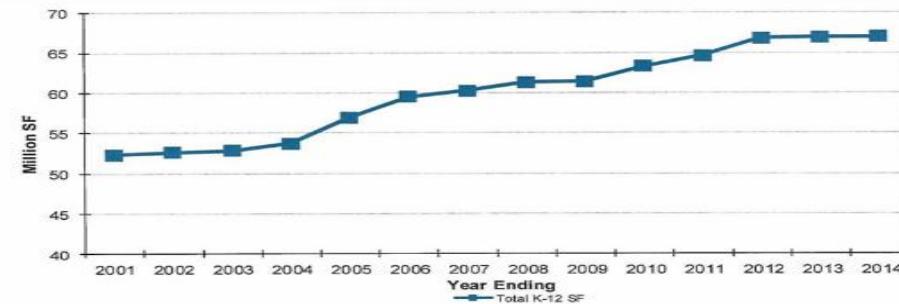
Classroom Allocations (all school)



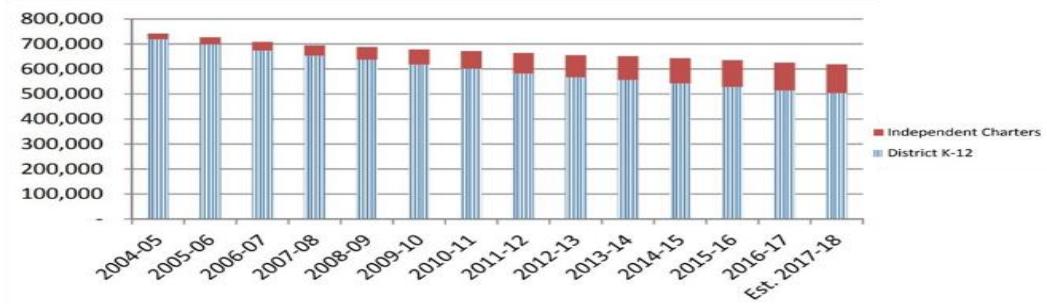
Classroom Allocations by school type



Square footage of K-12 classrooms



Enrollment trend



Historical trends and observations suggest LAUSD has more capacity than needed

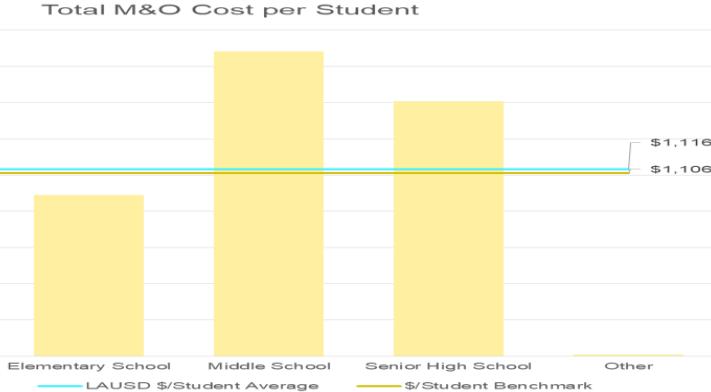
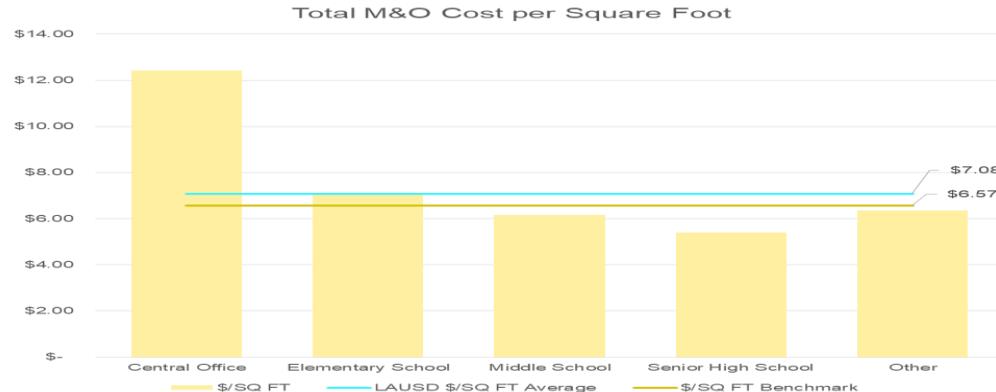
- Self-reported E-CAR data shows enrollment as a percentage of capacity at 88.2%, but capacity varies greatly by school. However, additional study is needed as trends in portfolio growth and declining enrollment, and M&O staff reports suggest greater excess capacity.
- Square footage of K-12 classrooms has grown 24% since 2001. Enrollment, including charter schools, has declined approximately 15% in the same period.
- Based on last year's E-CAR data, over 200 schools have greater than 15% excess capacity. The 200 schools represent 28% of reported LAUSD schools.
- There is an estimated opportunity to normalize the levels of excess capacity and reduce overall square footage of the property portfolio by 1.5-2 million square feet.

Source: LAUSD Management information

Appendix F1 – Facilities M&O

Finding #4. Benchmarking

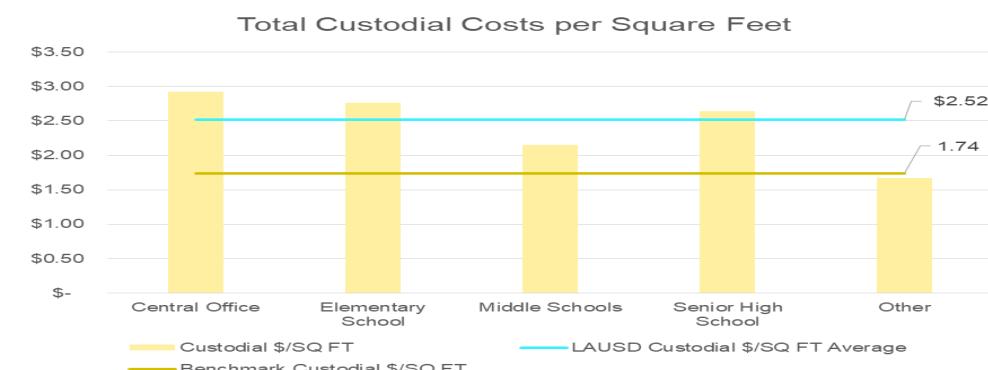
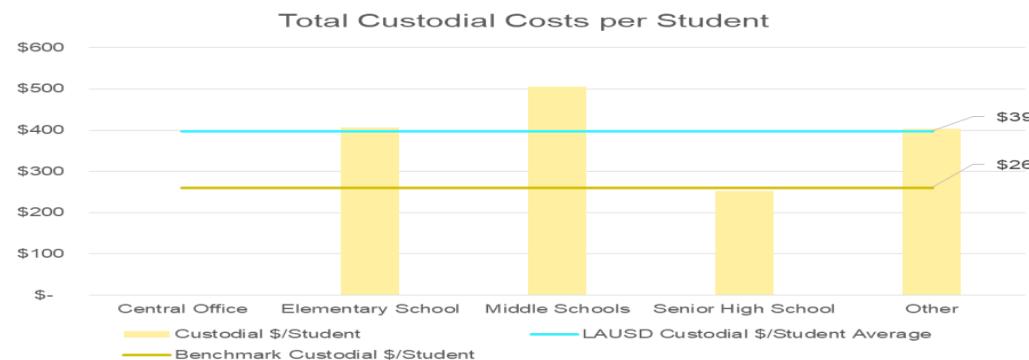
Costs per square foot are higher than school facility benchmark, while costs per student are broadly in line



% of Costs	10%	37%	15%	20%	17%
% of sq. ft.	6%	35%	17%	25%	18%

% of Costs	10%	37%	15%	20%	17%
% of students	0%	39%	12%	18%	31%

Total custodial costs at LAUSD trend significantly higher than industry benchmarks

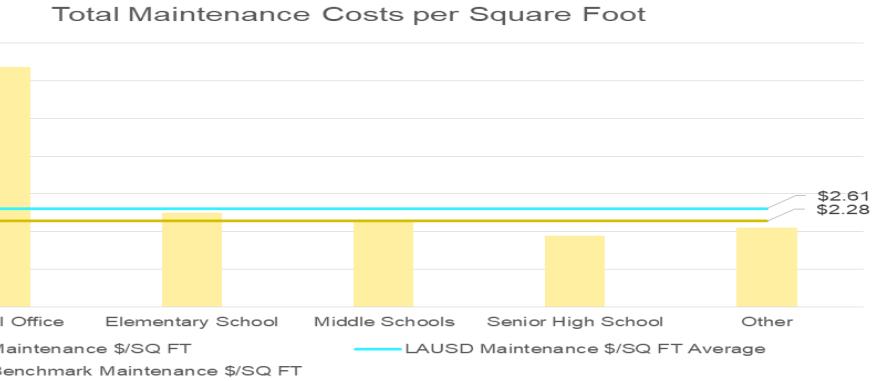
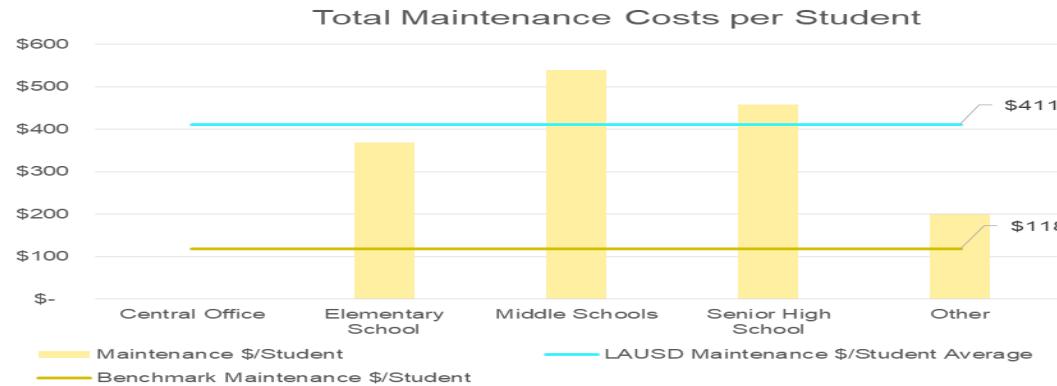


Sources: 1. LAUSD Management information 2. Benchmark data and the International Facility Management Association

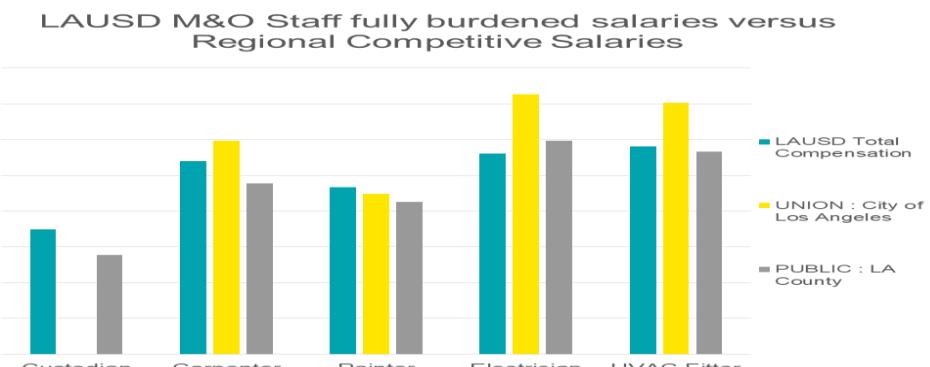
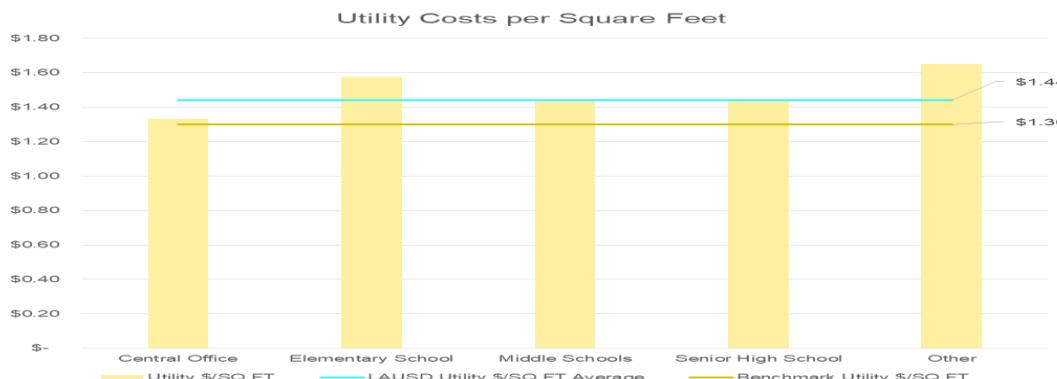
Appendix F2 – Facilities M&O

Finding #4. Benchmarking (continued)

Maintenance costs psf appear in line with industry standards, but costs per student are significantly higher, suggesting excess capacity



Utility costs and labor costs



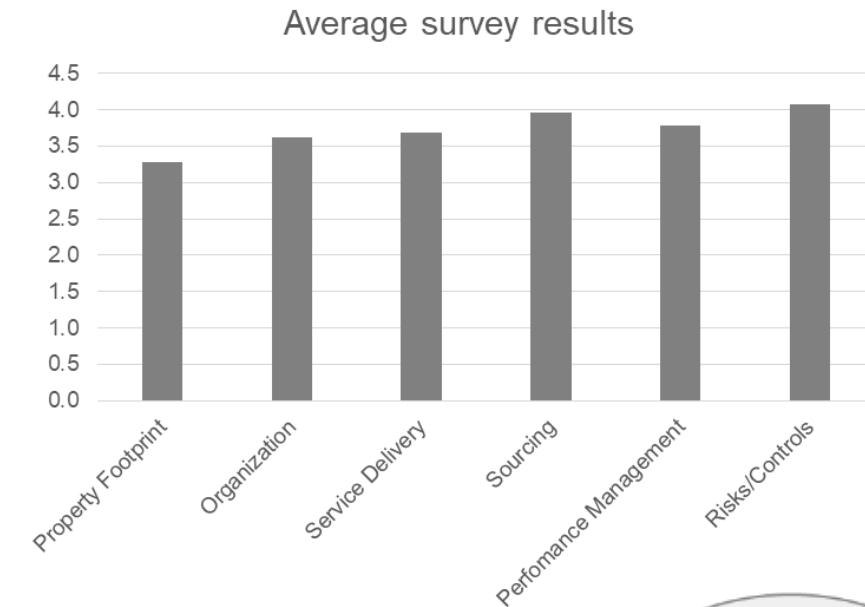
- There is competition among regional institutions to attract experienced craft workers. Management advises that LAUSD has struggled to retain/attract valuable staff members for the M&O division.

Sources: 1. LAUSD Management information 2. Benchmarks data and the International Facility Management Association, City of LA, LA County

Appendix G – Facilities M&O

Finding #4. Survey Responses

Category	Average survey response results
	Providers
Property Footprint	3.3
Organization	3.6
Service Delivery	3.7
Sourcing	4.0
Performance Mgmt	3.8
Risks/ Controls	4.1
<i>Overall Average</i>	3.8
Count	14



14 staff members completed all or part of the survey, scoring Facilities M&O operations on a **scale of 1 to 5** (where 5 is best) against **over 200** leading practices

Leading organizations strive to score 4 or above in each category

Example comments for low-score responses

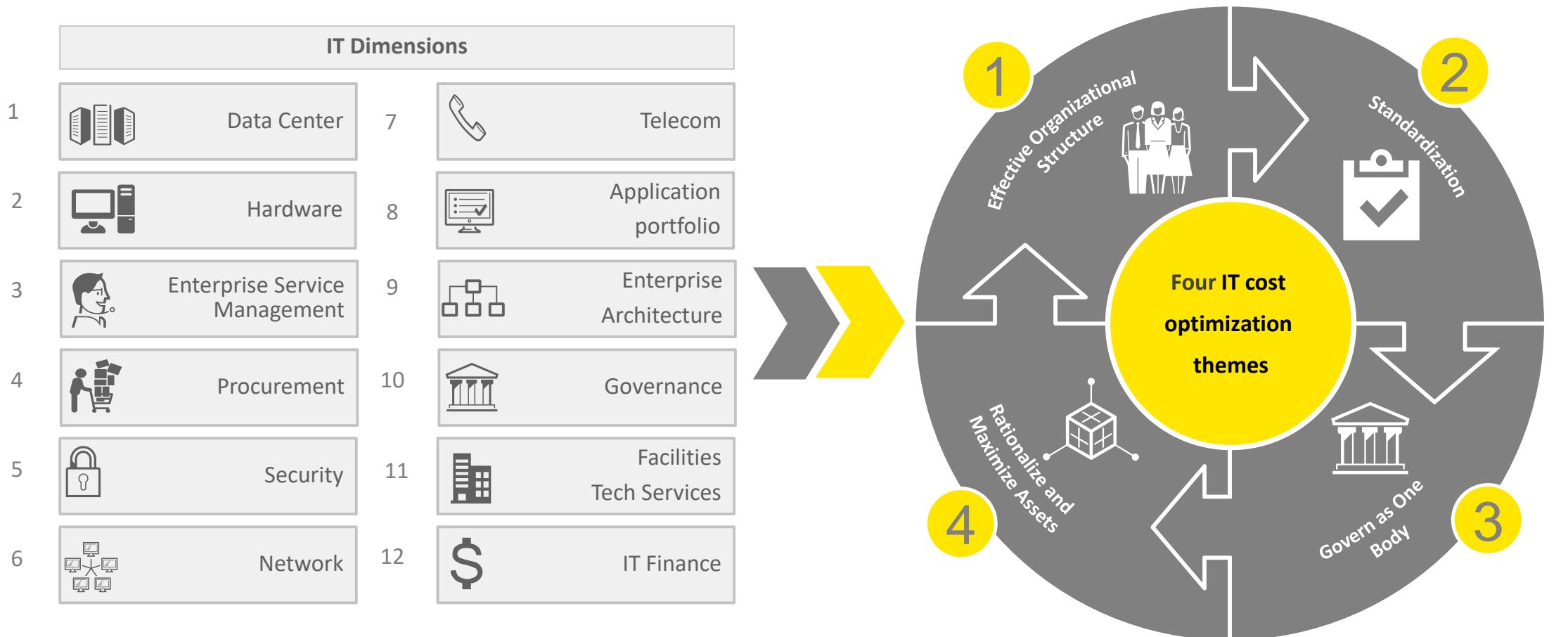


Sources: LAUSD Facilities M&O staff survey responses; benchmark data

Information Technology

Dimensions of information technology

- The 12 dimensions were assessed via interviews with LAUSD and IT Department (“ITD”) stakeholders and via review of data collected against benchmarks and leading practices.
- The findings and recommendations resulting from the assessment of the 12 dimensions were consolidated into four key themes for cost optimization, as set out below.



Executive Summary (1 of 2)

Current State		<ul style="list-style-type: none"> ► IT is responsible for building and maintaining the technology needed to support successful learning in LAUSD. ► At District sites, IT is in charge of surveillance systems, network, alarms, radios, phone systems and PA/intercoms. ► IT has a 300+ application portfolio supporting the central office, school front office, teachers, students and families. ► IT supports over 1,300 schools, 400,000+ computing devices, 95,000+ wireless access points and 46,000+ network devices. 			
	Finding	Recommendation	Difficulty ^[1]	Timing ^[1]	Illustrative Impact ^[1]
Effective Org Structure	1. a) IT spend is overly bond centric. Possible use of bond funds to support operations.	Rebalance the use of bond funds vs. general funds so that projects are capability based rather than funding source centric.	●	16-18 months	~\$1.5M-\$2M
	1. b) Multiple and outdated job descriptions exist in LAUSD, causing overhead.	Shift from single job descriptions (currently ~200-300) to streamline job families and reduce approval cycle overhead.	●	4-6 months	~\$1.5M-\$2M
	1. c) Limited insights into the District's buying needs. Demand management of IT Service Management ("ITSM") is imbalanced.	Increase collaboration with Educators so that comprehensive strategy aligns technology capabilities with school requirements.	●	10-12 months	~\$2.5M-\$3M
	1. d) Shadow IT is significant resulting in duplicative resources and decentralized resource management.	Consolidate all IT resources into an organizational structure that supports the District's objectives.	●	16-18 months	~\$7M-\$8M
	1. e) Direct and non-direct communication channels to help desks, increasing ticket resolution times.	Optimize and streamline help desks and align to ITSM standard processes.	●	4-6 months	~\$2.5M-\$3M
Standardization	2. a) Multiple vendors with decentralized vendor management for a broad range of infrastructure devices.	Streamline vendor footprint to drive centralization and standardization.	●	16-18 months	~\$3M-\$3.5M
	2. b) Essential commodity functions (e.g., app development, testing, WAN) are managed in-house incurring overhead.	Realize benefits by moving commodity services to a managed service model and increasing use of outsourcing.	●	16-18 months	~\$8M-\$9M
	2. c) Enterprise applications are not fully leveraged, increasing application portfolio and costs.	Develop an enterprise applications first approach to fully utilize capabilities.	●	4-6 months	~\$2M-\$2.5M
	2. d) Decentralized security policies may be exposing the enterprise to risk.	Develop comprehensive Enterprise security policies and procedures to encompass needs of all LAUSD functions.	●	8-12 months	~\$1M-\$1.5M
	2. e) Asset management is not consistently applied enterprise-wide.	Develop and operationalize an enterprise IT asset refresh policy.	●	4-6 months	~\$1M-\$1.5M

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

- Less complex
- Moderate
- More complex

Executive Summary (2 of 2)

- Less complex
- Moderate
- More complex

	Finding	Recommendation	Difficulty ^[1]	Timing ^[1]	Illustrative Impact ^[1]
Govern as one body	3. a) Inconsistent IT investment review process limits transparency of investments, prioritization, and budget allocation.	Implement showback/chargeback model for IT services in order to provide transparency into ITD services consumption.	●	10-12 months	~\$1M-\$1.5M
	3. b) Insufficient project reviews, financial delivery metrics and project cost benefit realization tracking.	Establish effective enterprise-wide program management office ("EPMO") and budget oversight committee ("EBOC") with defined investment factors and thresholds.	●	10-12 months	~\$1.5M-\$2M
	3. c) Lack of a formal Enterprise Architecture ("EA") results in duplicative capabilities and non-standard practices, leading to non ITD functions playing an active role in governing technology.	Establish an EA practice and align with business and IT vision and strategies.	●	12-14 months	~\$4.5M-\$5M
	3. d) Organizational change management ("OCM") is immature and a formal operating model is not evident.	Develop a formal operating model and work with other functions to establish enterprise-wide OCM.	●	6-8 months	~\$1M-\$1.5M
Rationalize & Maximize Assets	4. a) Data centers (primary and data recovery ("DR")) exist in high-cost, high-risk geographical areas.	Shift data center to lower cost location, modernize primary data center to align with business needs and outsource DR to the cloud.	●	22-24 months	~\$12M-\$12.6M
	4. b) Application portfolio (~300 active apps) is understated and not rationalized.	Implement application portfolio optimization and rationalize applications to optimize current active application portfolio.	●	6-8 months	~\$4M-\$4.3M
	4. c) Evidence that automation is not in widespread use.	Implement emerging technologies, such as RPA, for routine IT activities and analyze historical data to predict trends.	●	16-18 months	~\$1M-\$1.3M
	4. d) Lack of insights into effective controls into capital expenditure.	Dramatically increase use of cloud to better address capital vs. operational balance.	●	16-18 months	~\$1M-\$1.3M
	4. e) Use of managed service providers ("MSPs") is not optimized.	Streamline MSP to simplify contracts.	●	10-12 months	~\$4M-\$4.5M
				Total	\$60M-\$70M

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Findings #1c, #1e, #2b, #2e, #4c: Enterprise Service Management

Estimated Savings Opportunity	Priority
\$6M – \$7M	Medium
Findings	
<ul style="list-style-type: none"> ▶ Asset management software is not leveraged to better track IT assets, including but not limited to physical devices, enterprise software licenses, etc. ▶ Assets are refreshed on an “as-needed” basis, which causes a lack of standardization and creates a burden for technology transformation. ▶ Service desk processes are manual and inefficient (e.g., call tracking, first resolution, etc.). ▶ Multiple enterprise-wide help desks exist, providing siloed support to applications. ▶ Varied communication channels exist (e.g., Remedy, direct phone lines) to reach the help desks, which increase complexity of tracking tickets/issues. ▶ Contractors provide Level 1 and Level 2 support after hours and overflow at ~\$4 per call 	
Recommendations	
<ul style="list-style-type: none"> ▶ Develop an enterprise IT asset refresh policy and operationalize the plan. ▶ Extend existing implementation of Remedy across LAUSD for service management, making it the system of record while removing duplicate systems and processes. ▶ Train users adequately, reduce cost of other help desk systems and track efficiency metrics against service delivery for customer service. ▶ Leverage emerging technology, such as, chatbots to automate certain help desk processes and activities, improving efficiency and reducing operational cost. ▶ Increase standardization of processes and enhance consistency of end-user experience by aligning help desks to ITSM processes. ▶ Reduce reliance on service desk contractors for after hours and overflow that charge a premium. 	

Sources: LAUSD Management information, stakeholder interviews

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

See footnote 1 below

Difficulty: 
Timing: 16-18 months
Potential \$: \$6M-\$7M

Financial Framework Levers	
Levers	Opportunity
Demand Management	<input type="checkbox"/>
Supply Management	<input type="checkbox"/>
Asset Management	<input type="checkbox"/>
Consolidation	<input type="checkbox"/>
Shared Services Delivery	<input type="checkbox"/>
Organization Structure Optimization	<input type="checkbox"/>
Benchmarking	<input type="checkbox"/>
Process Efficiency	<input type="checkbox"/>
Technology Enabled Efficiency	<input type="checkbox"/>
Vendor Optimization	<input type="checkbox"/>
SLA Management	<input type="checkbox"/>
Modernization	<input type="checkbox"/>

Findings #1b, #1d, #2b, #2c, #4b: Application Portfolio (1 of 2)

Est. Savings Opportunity	Priority
\$10M – \$11M	Medium

Findings
<ul style="list-style-type: none"> ▶ LAUSD maintains several complex and custom applications which process large amounts of data. These applications require high-cost infrastructure and personnel support. ▶ Individual development/testing/production processes and resources are dedicated to each major application area (e.g., MiSIS, SAP, Enterprise Reporting, Welligent, etc.). ▶ LAUSD has multiple Enterprise Resource Planning systems (e.g. ITD uses SAP for payroll, accounting, time reporting, benefits, e-recruit, employee self-service whilst Facilities uses Maximo for asset management, procurement, timekeeping, payroll). See also <i>IT Procurement findings</i>. ▶ LAUSD has multiple applications that are used for recruiting and other functions of HR. ▶ Enterprise application SAP processes most of the payroll for LAUSD. Around 20% of the payroll is processed manually.

Recommendations
<ul style="list-style-type: none"> ▶ ITD to prepare and provide the District with a comprehensive application roadmap. ▶ Consolidate Maximo and SAP to optimize cost savings, increase process standardizations and maintain one system of record for payroll, accounting, procurement, timekeeping, travel, etc. ▶ Human Capital Management (“HCM”) module can be used to consolidate various HR functions. ▶ Take an SAP (payroll, HCM, etc.) first approach and consolidate custom apps (emphasize “minimum viable product” methodology to implement must-have features/functions). ▶ Rationalize applications and target them to key enterprise standard systems – SAP, MiSIS, Welligent, Remedy, Schoology. ▶ Implement Agile for rapid delivery for all projects within ITD.

Sources: LAUSD Management information, stakeholder interviews

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

See footnote 1 below

Difficulty: 
Timing: 22-24 months
Potential \$: \$10M-\$11M

Financial Framework Levers	
Levers	Opportunity
Demand Management	<input type="checkbox"/>
Supply Management	<input type="checkbox"/>
Asset Management	
Consolidation	<input type="checkbox"/>
Shared Services Delivery	
Organization Structure Optimization	
Benchmarking	<input type="checkbox"/>
Process Efficiency	<input type="checkbox"/>
Technology-Enabled Efficiency	<input type="checkbox"/>
Vendor Optimization	<input type="checkbox"/>
SLA Management	<input type="checkbox"/>
Modernization	<input type="checkbox"/>

Findings #1b, #1d, #2b, #2c, #4b: Application Portfolio (2 of 2)

Findings	Financial Framework Levers																											
Findings	Levers	Opportunity																										
<ul style="list-style-type: none"> ▶ The current travel authorization process is manual. It involves physically printing the form and faxing it for further approvals. ▶ Unemployment claims are managed and maintained by a single resource by leveraging a LAUSD desktop. This may cause a single point of failure and risk of data loss. ▶ Business rules (e.g., attendance, graduation, etc.) are not clearly documented, increasing complexity in reports and dashboards. ▶ About 20 years of student data exists and can be used for more robust analytics to predict trends. 	<table border="1"> <thead> <tr> <th data-bbox="1495 347 2391 397">Levers</th><th data-bbox="1495 347 2391 397">Opportunity</th></tr> </thead> <tbody> <tr> <td data-bbox="1495 397 2391 447">Demand Management</td><td data-bbox="2247 414 2273 443"><input type="checkbox"/></td></tr> <tr> <td data-bbox="1495 447 2391 498">Supply Management</td><td data-bbox="2247 465 2273 493"><input type="checkbox"/></td></tr> <tr> <td data-bbox="1495 498 2391 548">Asset Management</td><td data-bbox="2247 515 2273 544"></td></tr> <tr> <td data-bbox="1495 548 2391 599">Consolidation</td><td data-bbox="2247 565 2273 594"><input type="checkbox"/></td></tr> <tr> <td data-bbox="1495 599 2391 649">Shared Services Delivery</td><td data-bbox="2247 616 2273 645"></td></tr> <tr> <td data-bbox="1495 649 2391 699">Organization Structure Optimization</td><td data-bbox="2247 666 2273 695"></td></tr> <tr> <td data-bbox="1495 699 2391 750">Benchmarking</td><td data-bbox="2247 717 2273 745"><input type="checkbox"/></td></tr> <tr> <td data-bbox="1495 750 2391 800">Process Efficiency</td><td data-bbox="2247 767 2273 796"><input type="checkbox"/></td></tr> <tr> <td data-bbox="1495 800 2391 851">Technology Enabled Efficiency</td><td data-bbox="2247 817 2273 846"><input type="checkbox"/></td></tr> <tr> <td data-bbox="1495 851 2391 901">Vendor Optimization</td><td data-bbox="2247 868 2273 897"><input type="checkbox"/></td></tr> <tr> <td data-bbox="1495 901 2391 951">SLA Management</td><td data-bbox="2247 918 2273 947"><input type="checkbox"/></td></tr> <tr> <td data-bbox="1495 951 2391 987">Modernization</td><td data-bbox="2247 969 2273 997"><input type="checkbox"/></td></tr> </tbody> </table>	Levers	Opportunity	Demand Management	<input type="checkbox"/>	Supply Management	<input type="checkbox"/>	Asset Management		Consolidation	<input type="checkbox"/>	Shared Services Delivery		Organization Structure Optimization		Benchmarking	<input type="checkbox"/>	Process Efficiency	<input type="checkbox"/>	Technology Enabled Efficiency	<input type="checkbox"/>	Vendor Optimization	<input type="checkbox"/>	SLA Management	<input type="checkbox"/>	Modernization	<input type="checkbox"/>	
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Demand Management	<input type="checkbox"/>																											
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SLA Management	<input type="checkbox"/>																											
Modernization	<input type="checkbox"/>																											
Recommendations																												
<ul style="list-style-type: none"> ▶ Incorporate end-user training to realize benefits of the technology implementation. ▶ SAP has a travel module which is widely used by large organizations. Process efficiency could be greatly improved by leveraging the Concur module of SAP. ▶ Current processes in SAP can be leveraged for unemployment claims. ▶ Develop and socialize a business rules repository for clear documentation of metrics (e.g., graduation rates, attendance). ▶ Implement RPA within IT to reduce routine IT activities (e.g., regression test, QA, security log reviews, etc.) ▶ Leverage machine learning and automation to understand historical data (~20 years) and predict trends. ▶ Generate focused reports that could benefit specific ecosystem partners, like principals, teachers, counselors and parents. 																												

Sources: LAUSD Management information, stakeholder interviews

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Findings #2a, #4c, #4e: Procurement

Est. Savings Opportunity	Priority
\$8M – \$8.5M	Medium
Findings	
<ul style="list-style-type: none"> LAUSD has multiple Enterprise Resource Planning systems (e.g., ITD uses SAP for payroll, accounting, time reporting, benefits, e-recruit, employee self-service, while Facilities uses Maximo for asset management, procurement, timekeeping, payroll). See also, <i>Application Portfolio findings</i>. Education software purchasing is carried out in an ad-hoc manner. A centralized policy is not in place, which could regulate licensing costs by leveraging site licenses. Several end-user computing device contracts are available. Schools are purchasing devices in an ad-hoc manner with minimal emphasis on standardization (see also <i>Hardware findings</i>). Over 300+ vendors exist, providing overlapping services to LAUSD IT and making it challenging to negotiate costs. 	
Recommendations	
<ul style="list-style-type: none"> Enable single source contracts with large, qualified vendors for key IT assets, without a requirement to solicit multiple vendors. Improve the procurement process to hire specialized skilled resources without impacting project schedule. Consolidate Maximo and SAP to optimize cost savings, increase process standardizations and maintain one system of record for payroll, accounting, procurement, timekeeping, travel, etc. Establish a new process that involves ITD oversight in the purchase of end-user devices and streamline these contracts. Establish standards and guidelines for acquiring products and services to optimize spend and gain favorable cost savings. 	

Sources: LAUSD Management information, stakeholder interviews

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

See footnote 1 below

Difficulty:



Timing:

16-18 months

Potential \$:

\$8M-\$8.5M

Financial Framework Levers	
Levers	Opportunity
Demand Management	█
Supply Management	█
Asset Management	█
Consolidation	█
Shared Services Delivery	
Organization Structure Optimization	
Benchmarking	█
Process Efficiency	█
Technology Enabled Efficiency	
Vendor Optimization	█
SLA Management	█
Modernization	

Finding #2b: Network

Est. Savings Opportunity	Priority
\$2.5M – \$3.5M	Medium
Findings	
<ul style="list-style-type: none"> WAN capabilities are managed in-house, increasing cost overhead. Multiple vendors/manufacturers are used for network components deployed per site like switches (e.g., Alcatel, Allied Telesyn, Aruba, Cisco, HP, Perle, Uplogix) and UPS (APC, Avayan Cisco, Eaton, Lucent, Powerware, Tripp Lite), which complicates sourcing contracts (see Appendix B for details). The network operations team operates efficiently by reducing overhead expense (70% reduction in expenses for the LAN maintenance contract, 40% expense reduction in operational expenses). 	
Recommendations	
<ul style="list-style-type: none"> Outsource commodity services, such as WAN. Consolidate vendors/manufacturers for network components (such as Switches, UPS, etc.) to gain improved purchasing power and to simplify contracts. Continually improve SLA enforcement for vendors (for basic and premier services). Improve operational efficiencies by focusing on emerging technologies, such as the Internet of Things. 	

See footnote 1 below

Difficulty:



Timing: 16-18 months

Potential \$: \$2.5M-\$3.5M

Financial Framework Levers	
Levers	Opportunity
Demand Management	<input type="checkbox"/>
Supply Management	<input type="checkbox"/>
Asset Management	<input type="checkbox"/>
Consolidation	<input type="checkbox"/>
Shared Services Delivery	
Organization Structure Optimization	
Benchmarking	<input type="checkbox"/>
Process Efficiency	
Technology Enabled Efficiency	<input type="checkbox"/>
Vendor Optimization	<input type="checkbox"/>
SLA Management	<input type="checkbox"/>
Modernization	<input type="checkbox"/>

Sources: LAUSD Management information, stakeholder interviews

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Finding #2b: *Telecom*

Est. Savings Opportunity	Priority
\$2M – \$3M	Medium
Findings	
<ul style="list-style-type: none"> ▶ LAUSD telecommunication systems are archaic and ~90% of funding currently used for telecom projects is allocated through federal funds that are not guaranteed. ▶ Multiple funding sources are used for telecom projects (e-Rate, bond funds for modernization, general funds for maintenance) that are inconsistent, putting projects in flight at high risk. ▶ Execution of the telecom refresh program is rather slow. According to current estimates, it will take more than 7 years to complete the refresh. ▶ A feasibility analysis of the hosted VoIP solution is being piloted at Kennedy Elementary School. ▶ Cellular expenditures incurred by the District are high, with the top 10 school sites spending ~\$24k annually (for 38 devices) for hardware and service costs and non-school sites spending \$565k annually (for 1,493 devices). 	
Recommendations	
<ul style="list-style-type: none"> ▶ Develop a more aggressive strategy to secure adequate funding to maintain existing telecommunication systems. ▶ Accelerate adoption of cloud-based phone services to replace traditional phone equipment to reduce telecom expense (the average business saves ~43% on phone expense by switching to cloud) and facilitate efficient tracking and management of calls. ▶ Reduce service cost share of telecom expense in school and non school sites by transitioning to VoIP. 	

See footnote 1 below

Difficulty: 

Timing: 16-18 months

Potential \$: \$2M-\$3M

Financial Framework Levers	
Levers	Opportunity
Demand Management	
Supply Management	
Asset Management	
Consolidation	
Shared Services Delivery	
Organization Structure Optimization	
Benchmarking	<input type="checkbox"/>
Process Efficiency	<input type="checkbox"/>
Technology-Enabled Efficiency	<input type="checkbox"/>
Vendor Optimization	
SLA Management	<input type="checkbox"/>
Modernization	<input type="checkbox"/>

Sources: LAUSD Management information, stakeholder interviews

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Finding #2d: Security

Est. Savings Opportunity	Priority
\$1M	Medium

Findings
<ul style="list-style-type: none"> A decentralized IT security program (e.g., network and physical security) adds complexity in defining, managing, maintaining and enforcing security standards. ITD has developed a 5-year security program that attempts to establish a much broader IT security program based on ISO/IEC 27001 standards. Execution of this program will require significant changes to current resources and technologies. Current security standards for applications remain at the infrastructure and application level but not at a code base level, exposing greater security vulnerabilities. A gap analysis completed for the District in 2017 determined that 600 information security policies were not compliant with ISO/IEC 27000 standards, putting assets in the organization at risk.

Recommendations
<ul style="list-style-type: none"> Enhance approach to information security design, operations and standards to balance risk, usability and efficiencies. Increase effectiveness of enterprise-wide risk management system. Reduce security risks by creating and communicating a policy on key security considerations (such as access controls). Fill gaps in resource management by hiring/upskilling current employees. Improve effectiveness by integrating security in every project from inception and by improving governance and accountability on businesses.

Sources: LAUSD Management information, stakeholder interviews

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

See footnote 1 below

Difficulty: 

Timing: 8-12 months

Potential \$: \$1M

Financial Framework Levers	
Levers	Opportunity
Demand Management	
Supply Management	
Asset Management	
Consolidation	<input checked="" type="checkbox"/>
Shared Services Delivery	
Organization Structure Optimization	<input checked="" type="checkbox"/>
Benchmarking	<input checked="" type="checkbox"/>
Process Efficiency	<input checked="" type="checkbox"/>
Technology Enabled Efficiency	
Vendor Optimization	
SLA Management	<input checked="" type="checkbox"/>
Modernization	<input checked="" type="checkbox"/>

Findings #1c, #1d, #3c, #3d: Enterprise Architecture

Est. Savings Opportunity	Priority
\$8M – \$9M	High
Findings	
<ul style="list-style-type: none"> ▶ ITD's current strategic plan has limited insights into organizational change activities and a need for operating model alignment with processes and technology. ▶ There seems to be little focus on the discipline that imposes structure, order and predictability, providing latitude to interpret strategy, business change and technology investment priorities. ▶ The IT roadmap lacks a dimension to sense environmental change and respond efficiently and effectively. ▶ A reputable process that demonstrates a) how technology creates value, b) how technology will deliver this value, and c) how value will be captured, does not currently exist. ▶ A decentralized software architecture within the IT organization leads to non standard architecture practices and guidelines, causing inefficient development, design, support and maintenance practices. 	
Recommendations	
<ul style="list-style-type: none"> ▶ Establish an EA practice creating a charter, operating model and an organization structure with roles, goals, and activities to align with business and IT vision and strategies. ▶ Develop EA principles, guidelines, patterns and practices, leveraging leading industry practices. ▶ Create blueprints and roadmaps for the business, information, application, and technology domains, creating current and future state architecture across business functional areas. ▶ Align the business initiatives roadmap with the EA blueprint identifying gaps and opportunities. ▶ Identify and align IT security technologies with components of the overall enterprise to support reliable, available and protected execution of core services and capabilities. 	

Sources: LAUSD Management information, stakeholder interviews

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

See footnote 1 below

Difficulty:	●
Timing:	16-18 months
Potential \$:	\$8M-\$9M

Financial Framework Levers	
Levers	Opportunity
Demand Management	
Supply Management	
Asset Management	■
Consolidation	■
Shared Services Delivery	■
Organization Structure Optimization	
Benchmarking	■
Process Efficiency	■
Technology Enabled Efficiency	■
Vendor Optimization	■
SLA Management	■
Modernization	■

Finding #1d: Facilities Tech Services

Est. Savings Opportunity	Priority
\$4M – \$5M	High
Findings	
<ul style="list-style-type: none"> ▶ Facilities IT services (a/k/a Facilities Technology Services) primarily provides support to schools at a budget of \$6.5M; however, it was noted that the budgeted amount is likely understated compared to actual spend. ▶ The project portfolio consists of 23 projects that are mostly funded by bond money and implemented across multiple years and are funding source centric rather than business capability centric. ▶ The enterprise application IBM Maximo is used for work order management, preventative maintenance, equipment inventory and personnel management. It has interfaces to CAFM, COLIN, LAUSD Contracts, and SAP. ▶ A lack of enterprise architecture oversight limits standardization and adds integration complexity. 	
Recommendations	
<ul style="list-style-type: none"> ▶ Unify Shadow-IT within ITD to eliminate duplicate processes, technology and resources. ▶ Implement an application portfolio assessment and rationalization to fully leverage enterprise applications and consolidate the portfolio within ITD. ▶ Pause current projects and reassess spend to ensure greater ROI and benefits to the District. ▶ Execute projects that are capability based to ensure appropriate allocation of bond funds. 	

See footnote 1 below

Difficulty:	●
Timing:	16-18 months
Potential \$:	\$4M-\$5M

Financial Framework Levers	
Levers	Opportunity
Demand Management	■
Supply Management	■
Asset Management	■
Consolidation	■
Shared Services Delivery	■
Organization Structure Optimization	■
Benchmarking	■
Process Efficiency	■
Technology Enabled Efficiency	■
Vendor Optimization	■
SLA Management	■
Modernization	■

Sources: LAUSD Management information, stakeholder interviews

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Findings #1a, #3a: *IT Finance*

Est. Savings Opportunity	Priority
\$3M – \$4M	Medium
Findings	
<ul style="list-style-type: none"> ► The lack of a showback/chargeback model creates gaps in financial transparency and accountability of how IT spending supports District objectives. ► Total cost of ownership reporting around services, applications and projects is lacking, which impedes ITD's ability to properly budget and forecast IT spend. ► Current IT spend is likely understated due to the presence of Shadow IT, resulting in duplicative resources and decentralized resource management. ► There is heavy reliance on one-time project funding (~50%) to staff current resources, which prevents optimal resource allocation. ► There is limited tracking of resources (allocation, spend, utilization) due to a lack of integration with SAP. ► IT funds are bond centric. 	
Recommendations	
<ul style="list-style-type: none"> ► Simplify showback/chargeback model for IT services in order to provide transparency into IT costs and consumption. ► Develop an IT service costing method to demonstrate cost of individual IT services. ► Orchestrate shifting of staff to long-term funding sources rather than one-time funding sources (currently at ~50%). ► Increase cost transparency by providing end-to-end tracking of IT spend (including labor). ► Rebalance the use of bond funds vs. general funds to ensure that projects are capability based rather than funding source centric. 	

See footnote 1 below

Difficulty:	●
Timing:	16-18 months
Potential \$:	\$3M-\$4M

Financial Framework Levers	
Levers	Opportunity
Demand Management	
Supply Management	
Asset Management	
Consolidation	
Shared Services Delivery	
Organization Structure Optimization	
Benchmarking	■
Process Efficiency	■
Technology Enabled Efficiency	
Vendor Optimization	
SLA Management	
Modernization	

Sources: LAUSD Management information, stakeholder interviews

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Finding #3b: Governance

Est. Savings Opportunity	Priority
\$2M – \$3M	High
Findings	
<ul style="list-style-type: none"> ▶ There is no formal IT investment review process that is consistently applied. This limits transparency of investments, prioritization and budget allocation (see Appendix C for details). ▶ Project reviews and financial delivery metrics are currently not enforced, leading to a need for an Enterprise Budget Oversight Committee (“EBOC”). ▶ A phased approach to organizational change management creates a lax and reactive approach to transformation initiatives. ▶ The PMO is acting in a dual capacity as an EA organization by governing technology standards. 	
Recommendations	
<ul style="list-style-type: none"> ▶ Establish effective enterprise-wide program management office (“EPMO”) and EBOC with defined investment factors and thresholds. ▶ Address the complexity of LAUSD operations by defining and enforcing standard policies and procedures. ▶ Establish processes to track project benefits post-implementation and increase accountability across the enterprise. ▶ Develop an IT operating model (see Appendix 1D for proposed IT operating model design) to improve performance, reduce duplicative efforts and ensure efficient resource allocation and work with other functions to establish enterprise-wide OCM. 	

See footnote 1 below

Difficulty:



Timing:

10-12 months

Potential \$:

\$2M-\$3M

Financial Framework Levers	
Levers	Opportunity
Demand Management	<input type="checkbox"/>
Supply Management	<input type="checkbox"/>
Asset Management	<input type="checkbox"/>
Consolidation	<input type="checkbox"/>
Shared Services Delivery	<input type="checkbox"/>
Organization Structure Optimization	<input type="checkbox"/>
Benchmarking	<input type="checkbox"/>
Process Efficiency	<input type="checkbox"/>
Technology Enabled Efficiency	<input type="checkbox"/>
Vendor Optimization	<input type="checkbox"/>
SLA Management	<input type="checkbox"/>
Modernization	<input type="checkbox"/>

Sources: LAUSD Management information, stakeholder interviews

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Findings #4a, #4d: Data Center

Est. Savings Opportunity	Priority
\$11.5M – \$12M	High

Findings
<ul style="list-style-type: none"> ▶ IT has one primary data center located in downtown LA and a secondary data center that acts as disaster recovery and business continuity. Both data centers are located in high-risk areas near the San Andreas Fault and in high-cost locations. ▶ All IT and Shadow IT applications are hosted on-premises in downtown LA with limited insights into the future infrastructure roadmap. ▶ Primary and secondary data center operation costs are not tracked effectively. Primary data center refresh costs of ~\$18.8M are realized over 5 years out of general funds. ▶ Bond projects totaling ~\$70.2M are used for executing several projects at the secondary data center.

Recommendations
<ul style="list-style-type: none"> ▶ Move the primary data center to a lower cost and lower risk geographical area. ▶ Evaluate feasibility of using a hybrid backup approach (i.e., on-premises and cloud). ▶ Reduce operating and labor costs by eliminating dormant services that are no longer needed. ▶ Implement a strategy to systematically migrate applications to the cloud to gain efficiencies in storage and further reduce hosting costs. ▶ Develop standard processes and procedures to increase virtualization and move applications to the cloud. ▶ Re-architect data centers to plan for projected District demand that exceeds current capacity.

See footnote 1 below

Difficulty:	●
Timing:	22-24 months
Potential \$:	\$11.5M-\$12M

Financial Framework Levers	
Levers	Opportunity
Demand Management	■
Supply Management	■
Asset Management	■
Consolidation	
Shared Services Delivery	■
Organization Structure Optimization	
Benchmarking	■
Process Efficiency	
Technology Enabled Efficiency	■
Vendor Optimization	
SLA Management	
Modernization	■

Sources: LAUSD Management information, stakeholder interviews

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Findings #4a: Hardware

Est. Savings Opportunity	Priority
\$2M – \$3M	High
Findings	
<ul style="list-style-type: none"> ► Vendors for end-user devices (laptops, desktops, mobile devices and servers) are fragmented between Apple (~17.7% of total spend on end-user devices) and an IT distributor (~82.3% of total spend on end-user devices). See Appendix A – Information Technology for details. <ul style="list-style-type: none"> ○ The IT distributor provides end-user devices from multiple manufacturers (Acer, Dell, Haier, HP, Lenovo, Microsoft, Samsung), reducing any efficiencies that could be gained through economies of scale. ► LAUSD has limited VoIP capabilities and most of voice and network spend is focused on traditional telephony. ► The District has insufficient mass communication channels (PA systems, communication with parents). ► There is a lack of an enterprise-wide minimum security/CCTV technology framework. 	
Recommendations	
<ul style="list-style-type: none"> ► Reduce vendor fragmentation by optimizing procurement for end-user needs to gain cost efficiencies. ► Roll out Bring Your Own Device ("BYOD") at schools to reduce cost pressures on ITD. ► Enhance telecommunication infrastructure to improve communication within the school ecosystem. ► Monitor, deploy and support video surveillance to reduce risks to the District's students, staff and properties. ► Streamline and optimize multiple vendors for hardware components to increase buyer power of LAUSD and strategically position the District to negotiate cost-effective contracts. 	

See footnote 1 below

Difficulty:	
Timing:	22-24 months
Potential \$:	\$2M-\$3M

Financial Framework Levers	
Levers	Opportunity
Demand Management	<input type="checkbox"/>
Supply Management	<input type="checkbox"/>
Asset Management	<input type="checkbox"/>
Consolidation	<input type="checkbox"/>
Shared Services Delivery	
Organization Structure Optimization	
Benchmarking	<input type="checkbox"/>
Process Efficiency	<input type="checkbox"/>
Technology Enabled Efficiency	<input type="checkbox"/>
Vendor Optimization	<input type="checkbox"/>
SLA Management	<input type="checkbox"/>
Modernization	<input type="checkbox"/>

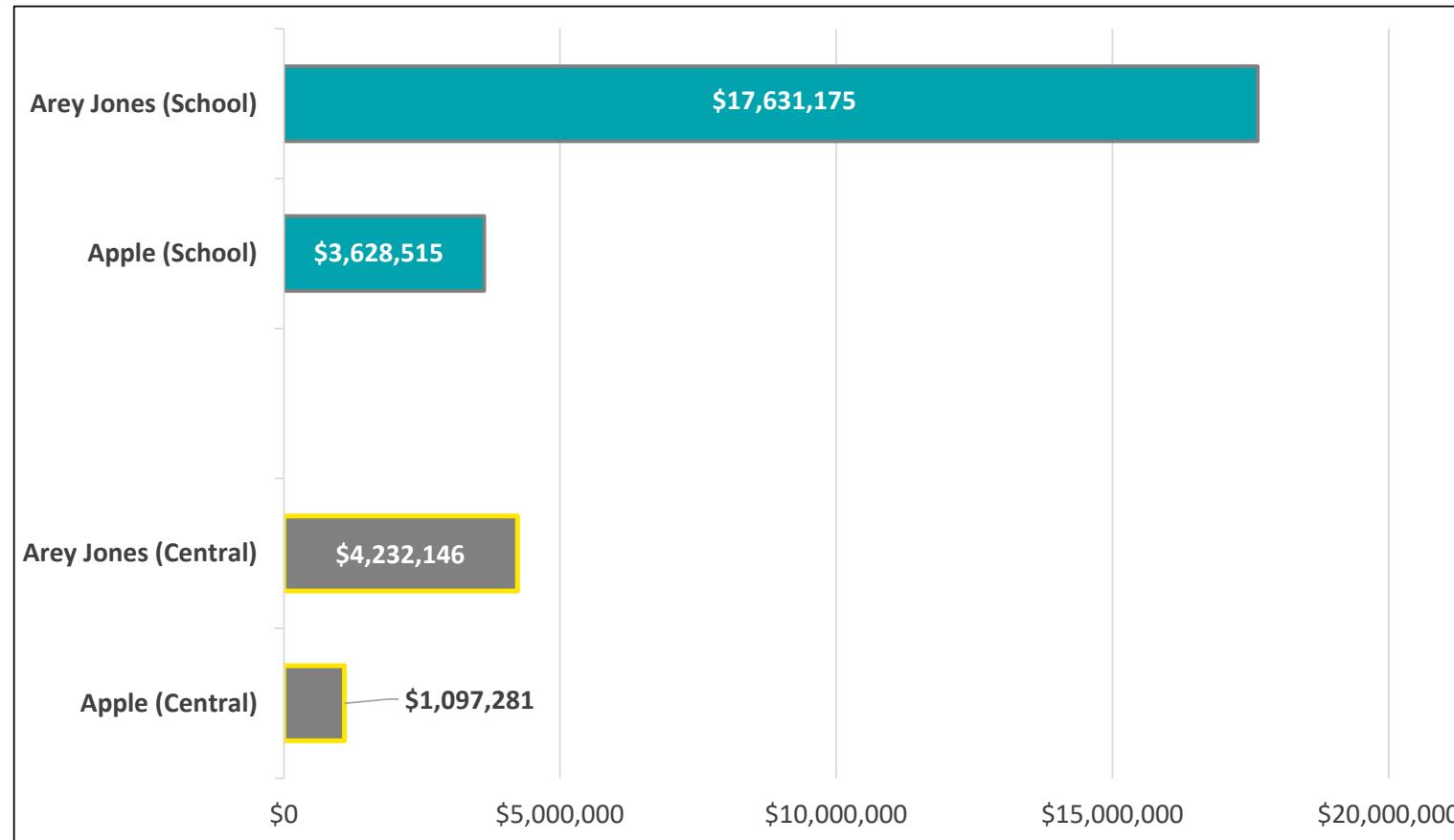
Sources: LAUSD Management information, stakeholder interviews

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

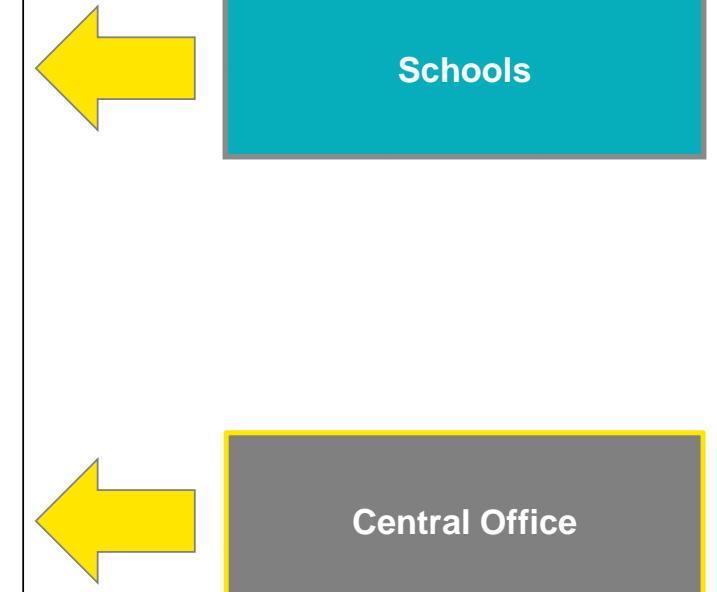
Appendix – Information Technology

Appendix A – Information Technology

End user devices spend by vendor



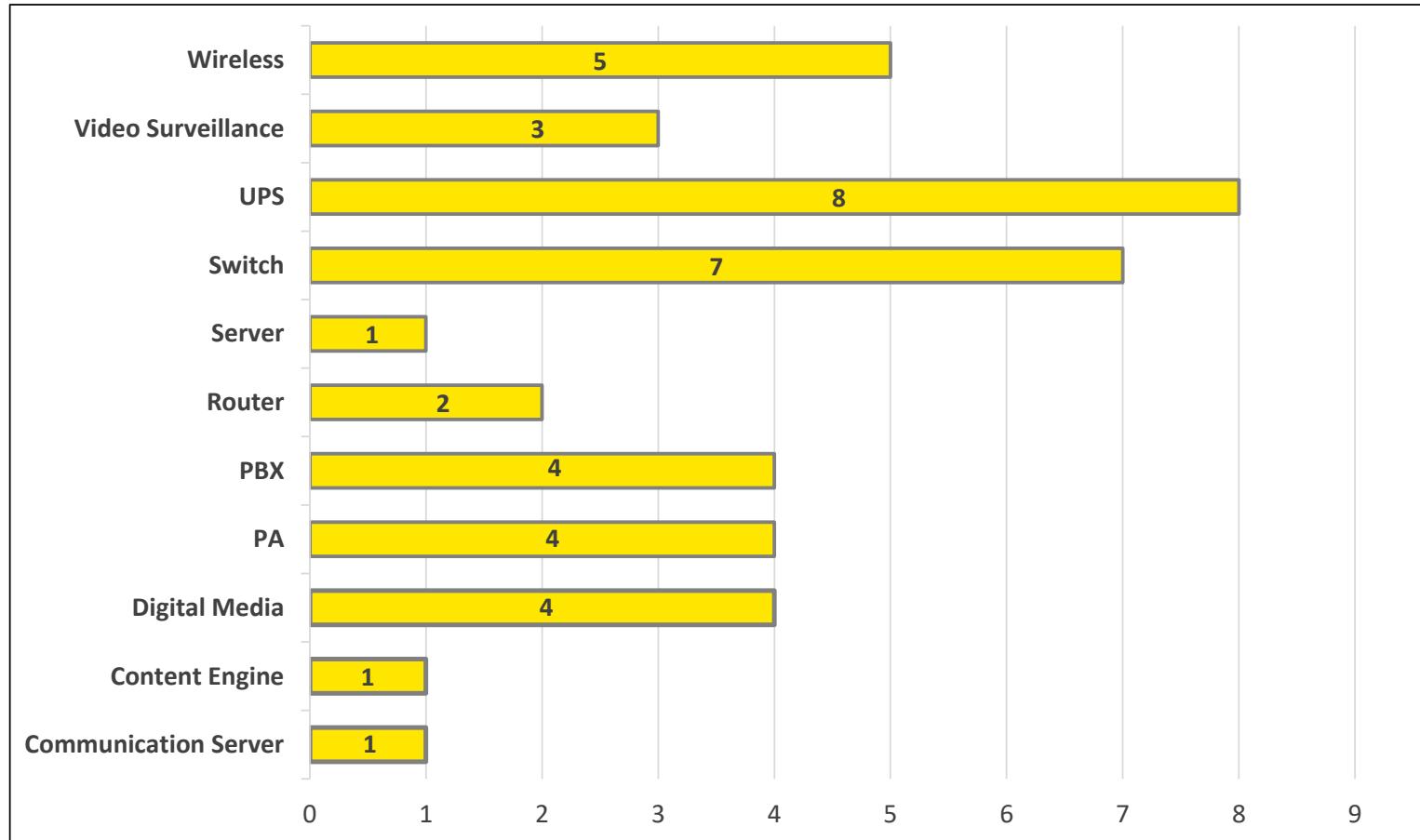
- ▶ Multiple manufacturer brands are purchased through a 3rd party provider.
- ▶ Reducing the number of choices and/or directly contracting with OEMs could result in substantial savings.



Source: LAUSD Management information

Appendix B – Information Technology

Network vendor count by network device categories



► Multiple vendors exist for most of the network device categories.

► Consolidation of network device vendors could result in substantial savings.

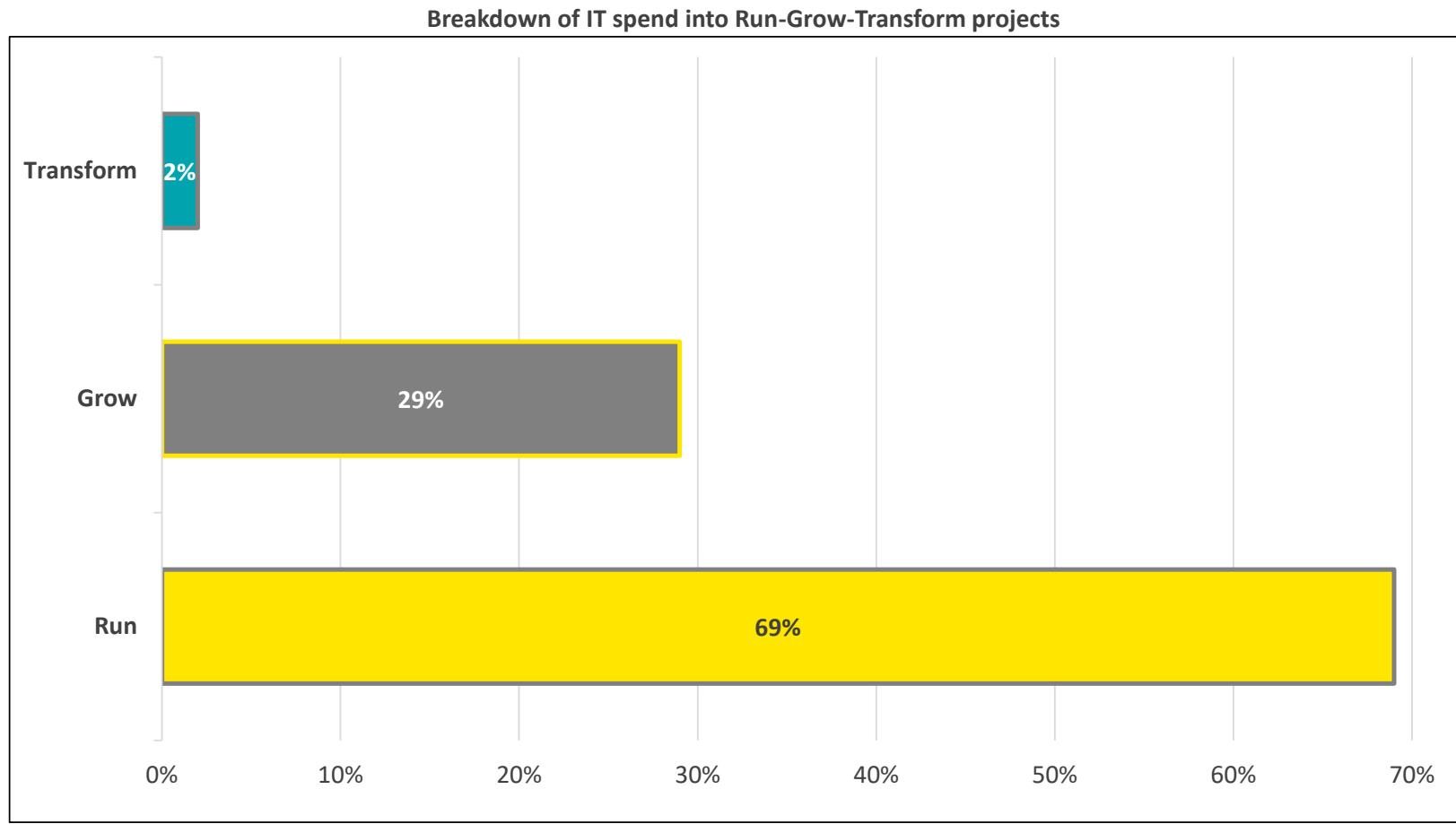
► Illustrative list of network device manufacturers used:

- AVAYA
- OPTEC DISPLAYS
- LUCENT
- PERLE
- CRADLEPOINT
- AND
- ARUBA
- HP
- LG
- MULTITECH
- 3COM
- ALCATEL
- EATON
- DVEO
- UPLOGIX
- TRIPP-LITE
- POWERWARE
- VALCOM
- SONY
- APC
- ALLIED TELESYN
- PANASONIC
- LOGITECH

Source: LAUSD Management information

Appendix C – Information Technology

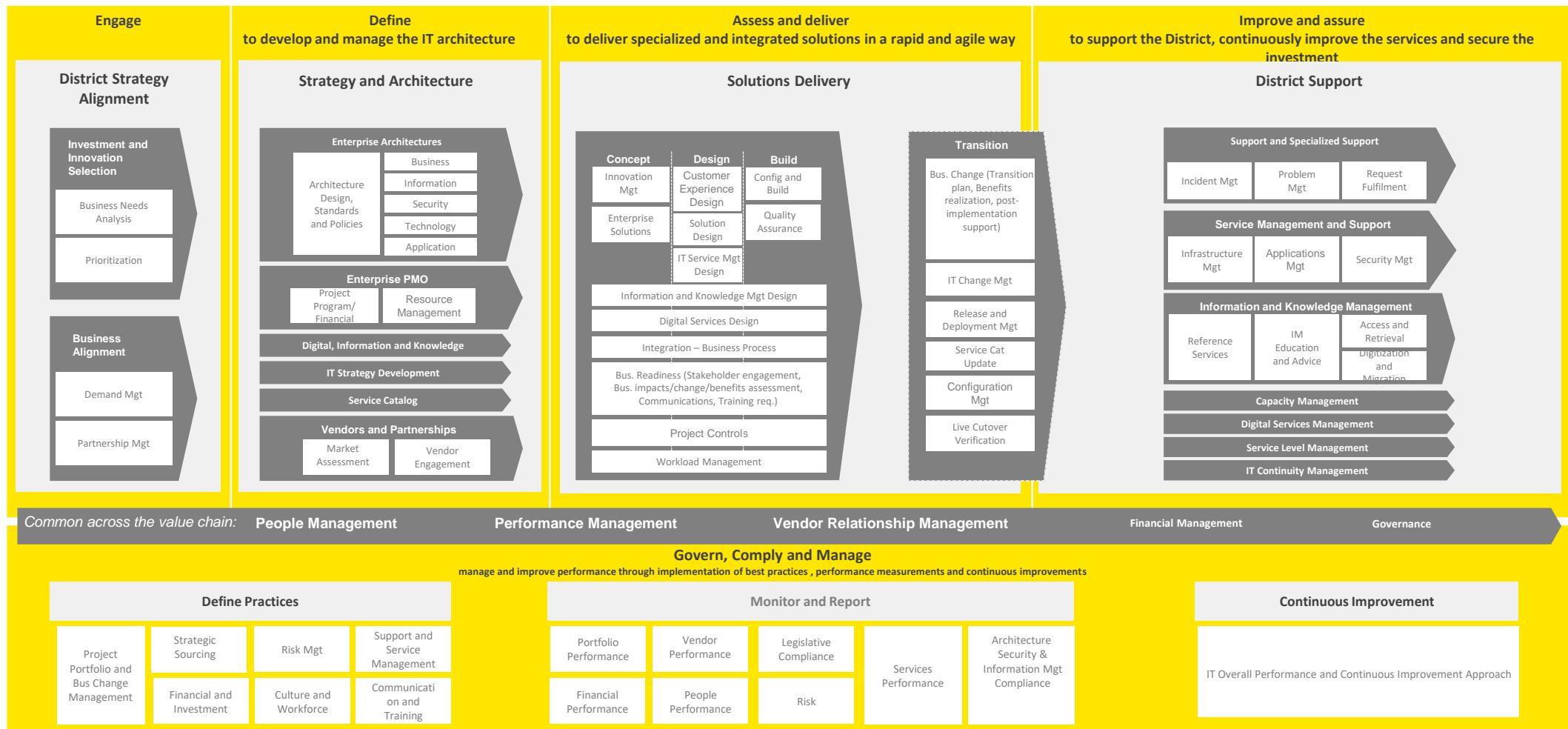
IT spend on projects by Run, Grow, Transform categories



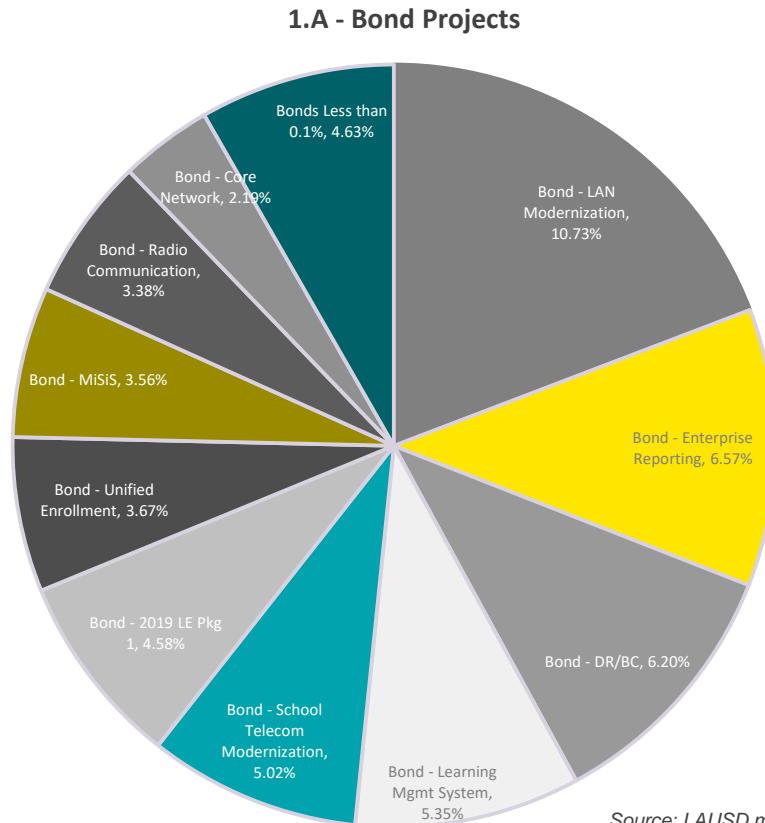
- ▶ Current IT project spend is heavily focused on running the business (69%), with only 31% of IT project spend dedicated to growing the business and transformative projects.
- ▶ IT project budgets are not tracked uniformly across all IT projects.
- ▶ There is limited benefits tracking for IT projects (e.g., are KPIs met).
- ▶ Average spend on IT projects is \$1.1M, with a median spend of \$235K.
- ▶ The highest spend of \$24M was on a telecommunications modernization project.

Source: LAUSD Management information, stakeholder interviews

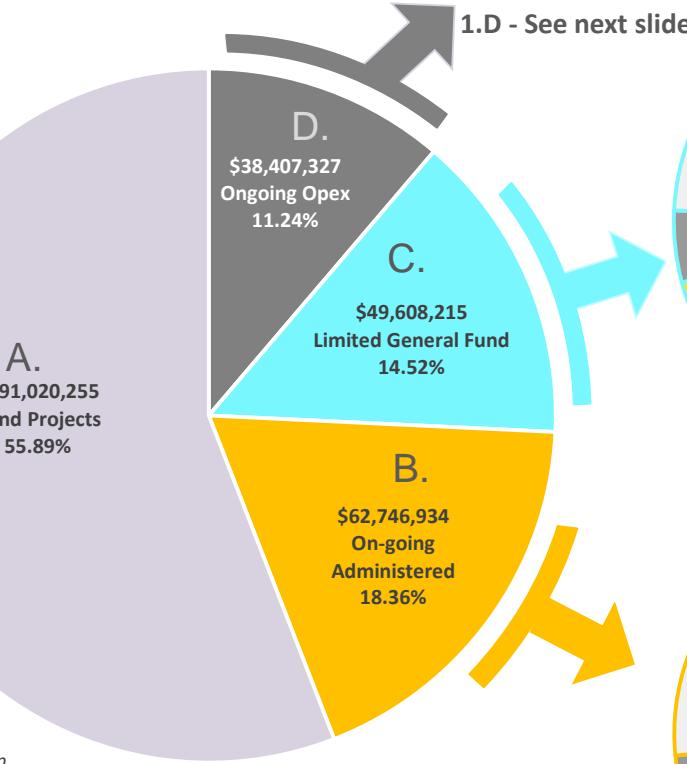
Appendix D – Information Technology Proposed IT operating model design



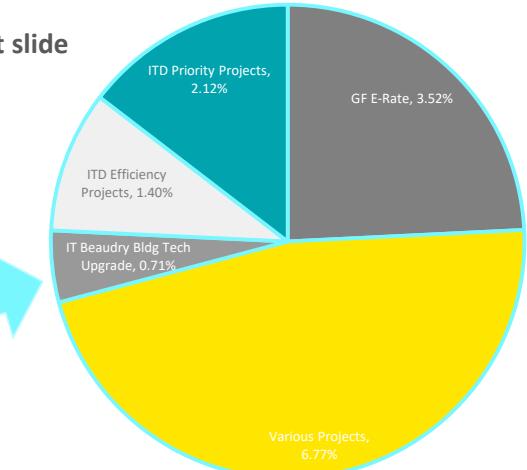
Appendix E – Information Technology FY19 IT budget by category – current state (1 of 2)



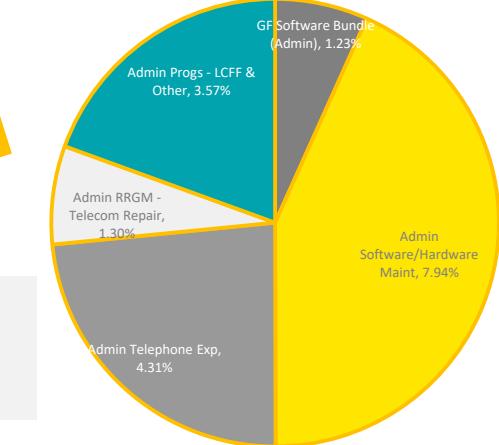
1. FY19 IT Budget by Category



1.C - Limited General Fund



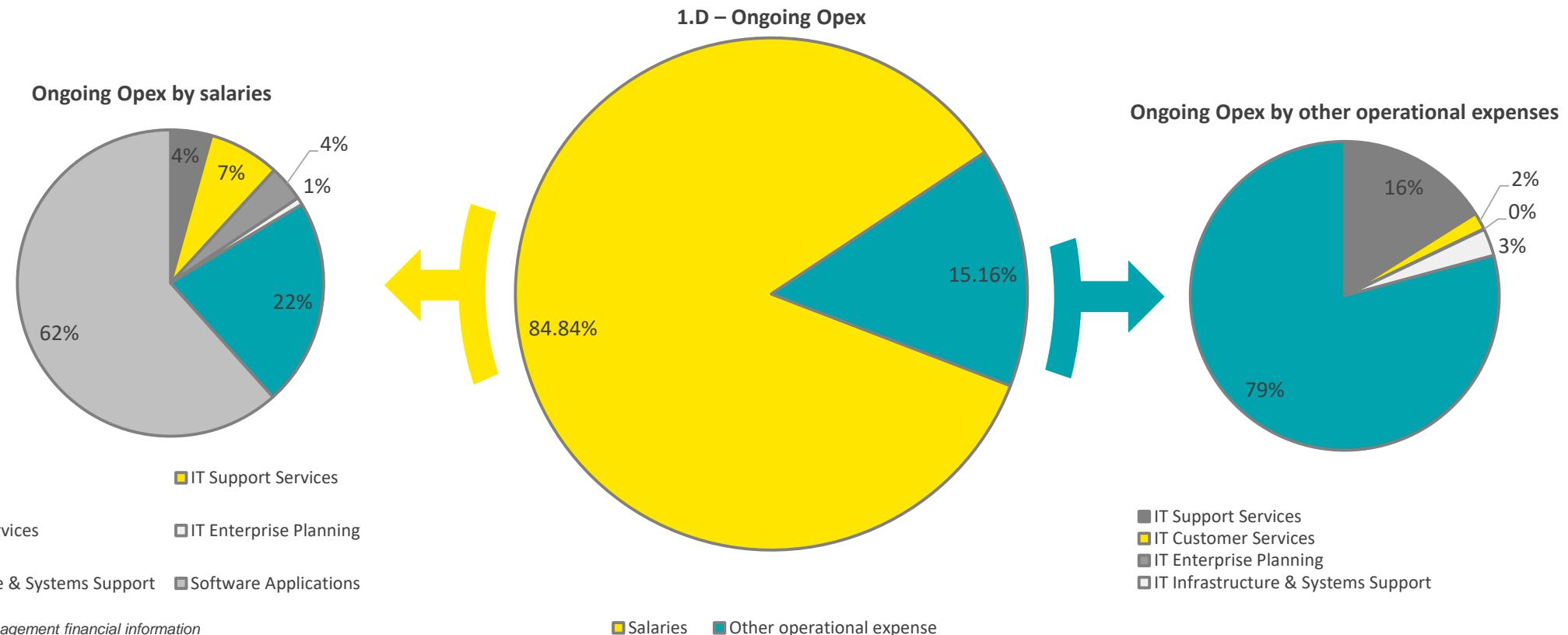
1.B - Ongoing Administered



- IT's total FY19 budget of ~\$342M is allocated across 4 major areas: Ongoing Opex, Limited General Fund, Ongoing Administered and Bond Projects.
- There is a heavy reliance on bond funds for IT projects (~56% of the total IT budget).
- Not all the bond projects are shown on chart 1.A above. Bond funds that are less than 0.1% (11 bonds) are included under "Bond funds less than 0.1%"

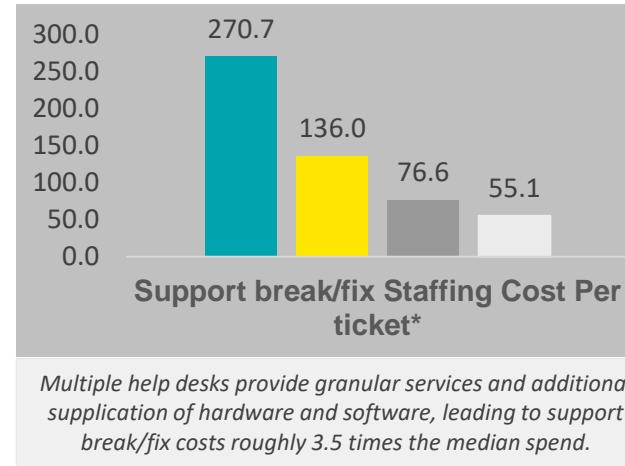
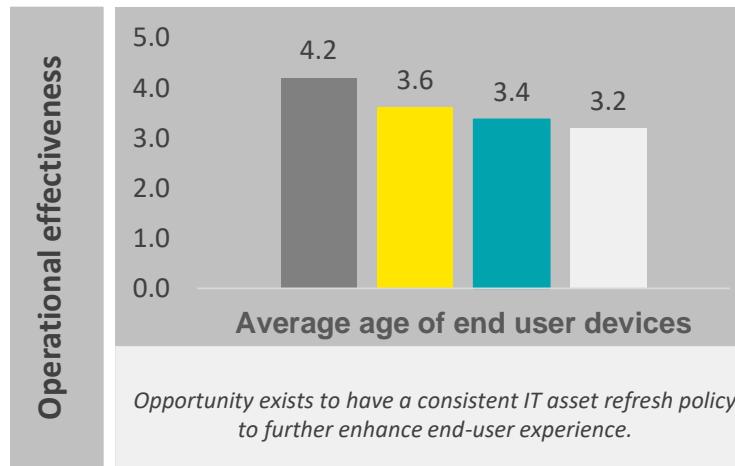
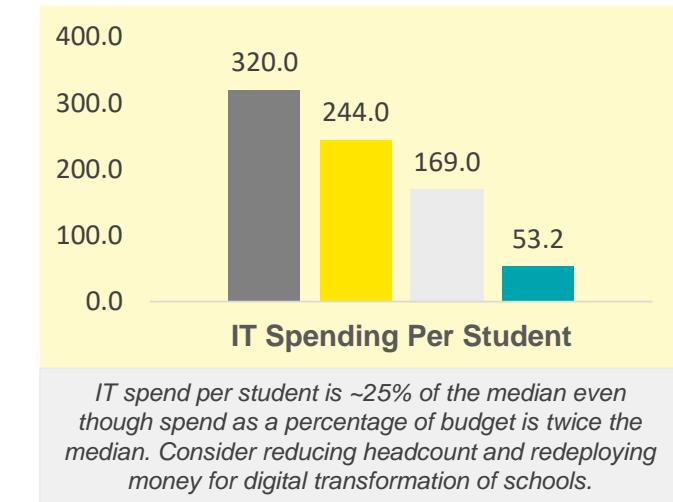
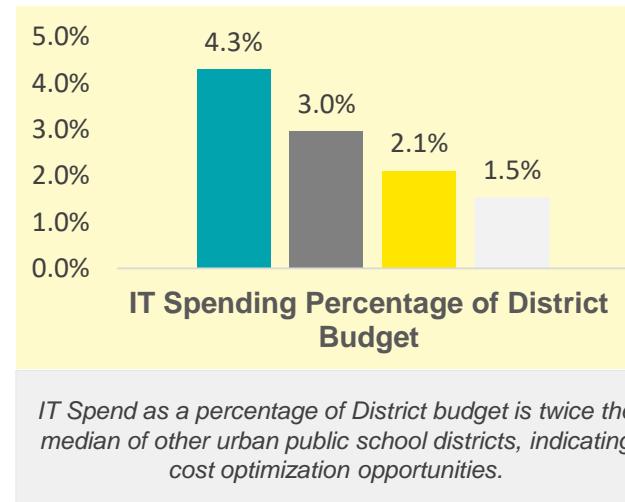
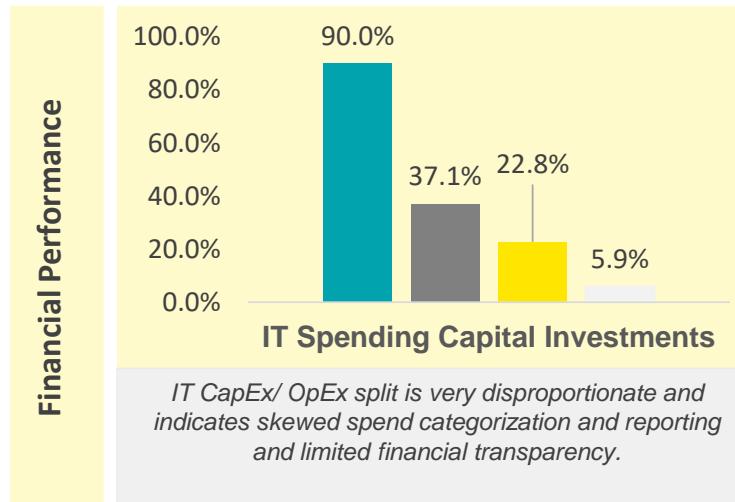
Appendix E – Information Technology

FY19 IT budget by category – current state (2 of 2)



- ITD's total ongoing operational expense is ~\$38.4M.
- Employees' salaries constitute a significant portion (~85%) of IT's operational expenses, whereas other operational expenses are ~15%.
- Streamlining IT customer services and IT support services (11% of total salary) could present significant cost optimization opportunities.
- The lack of a breakdown into expenses provides limited insights into details.

Appendix F – Information Technology Indicative comparative financial performance and operational effectiveness



**Bar represents extrapolation of provided data*

Sources: LAUSD Management information; Council of Great City Schools ('CGCS') Report October 2017

Appendix G – Information Technology Financial framework levers: definitions and descriptions



Demand Management

Manage demand intake effectively to maximize value (e.g., demand/portfolio management)



Supply Management

Manage and optimize supply to deliver business outcomes



Asset Management

Manage assets efficiently to extract more value



Consolidation

Merge and consolidate similar functions/assets/services



Shared Services Delivery

Establish common function to deliver services at lower cost



Organization Structure Optimization

Optimize organization structure to eliminate redundancy in management structure



Benchmarking

Use external benchmarking to drive toward industry parity



Process Efficiency

Redesign or improve overall process efficiency



Technology-Enabled Efficiency

Use emerging technologies to deliver process and cost efficiency (e.g., chatbots, RPA, cloud)



Vendor Optimization

Extract optimal value through contracts (e.g., better contract terms)



SLA Management

Manage service levels to meet customer value and expectations



Modernization

Modernize current applications / infrastructure to gain efficiency

Budget

- Less complex
- Moderate
- More complex

Executive Summary

Current State	<ul style="list-style-type: none"> ▶ LAUSD's Budget and Finance departments, including the Office of the CFO, Accounting, Accounts Payable ('AP'), Budget/FP&A, Payroll and Treasury, currently consist of approximately 308 employees with a budgeted personnel cost of ~\$38M in FY19 ▶ Due to recent rounds of budget cuts over the last few years, several of the departments have reduced headcount; However, within areas such as Payroll and AP, there are opportunities for process improvements and automation that could lead to cost reductions. 			
Finding	Recommendation	Difficulty ^[1]	Timing ^[1]	Illustrative Impact ^[1]
1. Manual paper checks make up approximately 20% of payroll disbursements, and these checks are processed, printed, metered, and delivered to the Post Office for mailing.	Engage with a 3 rd party payroll services provider(e.g., ADP) to determine evaluate the possibility of outsourcing the manual payroll check process.	●	3 months	\$150K
2. Vendor invoices are submitted in various formats, creating issues with invoice visibility for the A/P department.	An RFP for the implementation of Open Text technology is currently underway to centralize the majority of vendor invoicing and 3-way match process in SAP.	●	6-12 months	\$800K
3. Booking business travel is automated within SAP at central office, but is a manual process at the schools. A travel help desk manually enters all school travel forms.	Roll-out the automated business travel module to schools to establish consistency and process efficiency.	●	3-6 months	\$200K
4. Time reporters and time approvers are not adhering to the established payroll cut-off dates and paper form submissions are causing payroll errors. Late filing of paperwork leads to erroneous overpayments to employees and penalties and interest owed to California Retirement Systems.	<p>4a. To establish accountability, initiate a policy whereby a portion of overpayments, penalties and interest due to late filing of payroll paperwork could be charged back to the schools or departments (e.g., 50% charge back).</p> <p>4b. Internally prioritize several online payroll interface initiatives (payroll approval, certification of absence form, and self time reporting) that are slated to be implemented. These initiatives are already in process, but are not expected to be completed for several months.</p>	●	6 months	\$1M
5. Special Education baseline assistant staffing exceeds CA Ed. Code requirements and has not been adjusted as part of the budget allocation practices.	Consider the appropriate number of "baseline" assistants across pre-K and K-12 based on actual needs (as determined by SpEd division), IEPs, Ed Code, and other requirements.	●	6 months	\$10.6M
			Total	\$14M

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Finding #2: Vendor Payment Inefficiencies

See footnote 1 below

Overview

- ▶ LAUSD currently disburses ~\$3.5 billion in payments and processes ~500K invoices on an annual basis.
- ▶ Vendor invoices are currently submitted in various formats (such as email, snail mail, physical delivery, fax or digital copy) and processing is a highly manual process.
- ▶ The potential for data entry errors or inconsistencies is high during the invoice entry and validation process.
- ▶ The current process results in issues with invoice visibility for the AP department, leading to significant inefficiencies and follow-up activities in the AP Department.

Difficulty:



Timing: 6-12 months

Potential \$: \$800K

Recommendation

- ▶ An RFP for the implementation of Open Text is currently underway to centralize the majority of vendor invoicing and the three way match process in SAP. All invoices would be received into a centralized mailroom and scanned into Open Text using a data capture function and directly posted into SAP. This will reduce the time needed to process invoices, giving the AP department increased visibility and allow for more accurate data capture.
- ▶ It is estimated that a proposal to implement Open Text may be brought to the Board in the November/December timeframe, and implementation can potentially begin in January lasting approximately 6 - 12 months.
- ▶ The efficiencies resulting from the implementation of Open Text are expected to free up resources amongst the various positions in the AP function. It is estimated that there is an opportunity to free up 8 total positions, yielding a cost savings of approximately \$800K* per year.

*Estimated savings is based on positions within the AP department having an average cost of \$100K per year including salary and benefits.

Sources: LAUSD Management information, stakeholder interviews

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

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Finding #3: Travel Module Process at the Schools

See footnote 1 below

Overview

- LAUSD utilizes SAP to make business travel reservations through the travel module. Currently, all employees at the central office have access to the module and are able to make their own travel reservations online. However, this module is not accessible at the school level. As a result, teachers requesting business travel must manually submit these requests to the Travel/P-Card Support Unit (which currently sits in Procurement) in order for these requests to be registered in SAP.
- The Travel/P-Card Support Unit currently consists of six dedicated positions (1 for each of the local districts) and one support position primarily devoted to travel support.

Difficulty:



Timing: 3-6 months

Potential \$: \$200K

Recommendation

- The SAP travel module is currently capable of being implemented at the school level and ready to be rolled out, which would eliminate the need for travel support by the positions mentioned above.
- It is estimated that once this module is fully implemented at the school level, and the majority of the help support function is no longer needed, the result could be the elimination of two of the above seven positions. The remaining positions could still be devoted to P-Card support and could see an increase in productivity given a reduction in workload. The cost of these positions, on average, is \$100K per year for salary and benefits.

Sources: LAUSD Management information, stakeholder interviews

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

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Finding #4: Time Reporting Inefficiencies and payroll overpayments

Overview

The Time Reporting Process at LAUSD is currently a manual process whereby timesheets and certification of absence forms must be collected by timekeepers and approved before payroll deadlines within each payroll cycle.

- The completion, submission and approval process of the Certification of Absence forms is a time consuming process prone to many errors. Time is spent by timekeepers to track down forms which causes incorrect time code reporting and delayed payments, requiring payroll staff to correct the errors.
- Time reporters and time approvers are not adhering to the established payroll cut-off dates and missing payroll deadlines. Employees are often not being paid on their designated pay dates and as a result are missing their entire or partial paycheck. In addition, penalties and interest are owed to the California Retirement System.
- Paperwork for employees that are retiring or changing assignments is not consistently being processed in a timely fashion, leading to overpayments to employees.
- During FY18, LAUSD data suggests that certain employees were overpaid by ~\$3.2M and the District also incurred penalties and interest of ~\$0.5M with the CA retirement system.

Overpayment to Current/Separated Employees:

EE Type	TIME ADJUSTMENTS		CONTINUOUS ASSIGNMENT CHANGES		ANNUALIZATION		TOTAL	
	Employees	Amount	Employees	Amount	Employees	Amount	Employees	Amount
Active	1,558	\$ 947,728	258	\$ 638,796	62	\$ 106,910	1,878	\$1,693,433
Separated	449	\$ 216,934	94	\$ 434,893	211	\$ 810,592	754	\$1,462,419
Totals	2,007	\$1,164,661	352	\$1,073,689	273	\$ 917,502	2,632	\$3,155,852

Penalties/Interest paid to the CA Retirement System:

Description	Amount
CalSTRS Penalties & Interest	\$325,576
CalPERS Arrears	\$142,571
CalPERS Administrative Fees	\$15,500
Grand Total	\$483,547

Sources: LAUSD Management information, stakeholder interviews

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Finding #4: Time Reporting Inefficiencies and payroll overpayments (continued)

See footnote 1 below

Recommendation 4a: Establish accountability by considering a charge back policy for payroll errors

In order to encourage increased coordination with the schools in the collection of employee payroll forms, LAUSD could consider initiating a 50% charge back policy to the schools for employee overpayments to establish accountability. While in certain instances an employee may be overpaid through no fault of the school (under current practices), the intent of this new policy would be to encourage the schools to improve their internal processes, as well as communication and coordination with employees. The schools have the most direct interaction with and access to the employees and could take a larger role in reducing overpayments.

Difficulty:



Timing: 6 months

Potential \$: \$1M

See footnote 1 below

Recommendation 4b: Automate the payroll reporting process within SAP

Improvements to the Time Reporting System in SAP are underway. However, due to existing demands and the need to respond to special projects as they arise, the IT department is focused on multiple projects, and these critical improvements to automate the payroll function may take in excess of 18 months to implement. It is recommended that these initiatives be considered for increased priority.

Difficulty:



Timing: 12-18 months

Potential \$: \$1.5M

Phase	Time to Implement	Estimated Start Date
Automated Time Approval	6 Months	March 2019
Automated Cert. of Absence Form	6 Months	September 2019*
Self-Time Reporting	6 Months	March 2020*

*Estimated start dates could be delayed by special projects

Sources: LAUSD Management information, stakeholder interviews

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Finding #5: Special Education resource allocation – budgeting practice

See footnote 1 below

Overview

- ▶ LAUSD's FY19 budget includes 5,762 special education assistants ("baselines") at an annual cost of ~\$370 million.
- ▶ LAUSD management indicated that there are two requirements in the Ed Code governing baselines and beyond that LAUSD (specifically the SpEd division) has the flexibility to allocate baselines as it chooses. The two known Ed Code requirements are:
 1. At least 80% of the resource specialists within a local plan shall be provided with an instructional aide.
 2. For pre-school programs, the Ed Code requires one adult per every five students.
- ▶ The SpEd division allocates baselines to SpEd programs based on historical practices rather than a more comprehensive analysis that would consider actual needs (as determined by LAUSD and the SpEd Division).
- ▶ As a result of the current budgeting practice used by LAUSD, all SpEd classes appear to receive the minimum of one baseline, but many older programs receive more thereby exceeding the aforementioned Ed Code requirements.

Difficulty: 

Timing: 6 months

Potential \$: \$10.6M

	Positions	Required by Ed Code or Other ^[1]	Potential Surplus	Avg Cost ^[2] (\$)	Cost of Non-Ed. Code Req. Positions (\$M)
Pre-school baselines	775	668	107	\$54,015	\$5.8M
Resource Specialist baselines	1,084	994	90	\$54,015	\$4.8M
Total	1,859	1,662	197		\$10.6M
Memo:					
Other baselines	3,903	TBD	3,903	\$54,015	\$210.8M

Source: LAUSD Management information as at 09/06/2018

Note 1: As determined and provided by LAUSD management

Note 2: "Avg Cost" reflects the fully-loaded cost of the position (salary + benefits)

Recommendation

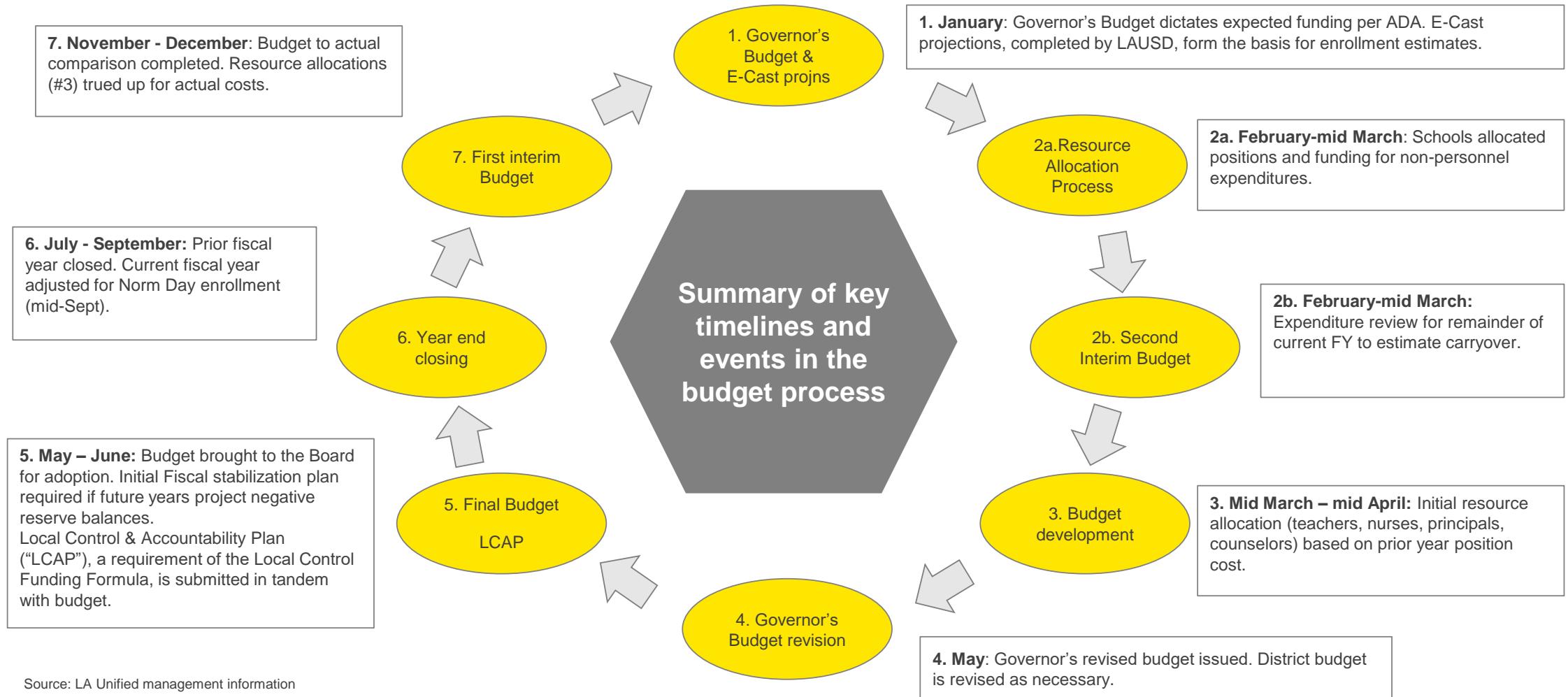
- ▶ The District should consider employing a budgeting practice that more comprehensively evaluates the staffing of baseline assistants, while considering critical needs (as determined by LAUSD and the SpEd division), IEPs, Ed Code, and other requirements.
- ▶ A baseline staffing standard should be developed to appropriately allocate positions based on need and requirements rather than on historical practices. A further assessment should be undertaken on the staffing of the remaining 3,903 baseline positions to determine adequacy and if any opportunities exist to adjust staffing.

Note 1: Implementation difficulty and timing are preliminary estimates based on input from LAUSD management and industry best practices. Actual difficulty and timing could vary significantly based on other factors. Illustrative financial impact reflects a high-level benchmark based on industry leading practices, industry benchmarks, and discussions with Management.

Appendix – Budget

Appendix A – Budget

Budget Process Overview



Source: LA Unified management information

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